

~~CONFIDENTIAL~~

Approved For Release 1999/09/02 : CIA-RDP79-01093A000400170001-6

~~SECRET~~

US OFFICIALS ONLY

00/I

PROVISIONAL INTELLIGENCE REPORT

file

PROBABLE ECONOMIC DEVELOPMENTS
IN EAST GERMANY
THROUGH 1955



CIA/RR PR-48
15 February 1954

DOCUMENT NO. 1
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS CHANGED TO: TS, S C
NEXT REVIEW DATE: 1989
AUTH: HR 70-2
DATE: 4 Oct 79 REVIEWER: 006514

CENTRAL INTELLIGENCE AGENCY

OFFICE OF RESEARCH AND REPORTS

4
216934/
US OFFICIALS ONLY

~~SECRET~~

Approved For Release 1999/09/02 : CIA-RDP79-01093A000400170001-6

~~CONFIDENTIAL~~

PR-48
RK

WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

CONFIDENTIAL

~~SECRET~~
US OFFICIALS ONLY

PROVISIONAL INTELLIGENCE REPORT

PROBABLE ECONOMIC DEVELOPMENTS IN EAST GERMANY THROUGH 1955

CIA/RR PR-48

(ORR Project 10.103)

NOTICE

The data and conclusions contained in this report do not necessarily represent the final position of ORR and should be regarded as provisional only and subject to revision. Comments and data which may be available to the user are solicited.

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

US OFFICIALS ONLY

~~SECRET~~

CONFIDENTIAL

~~CONFIDENTIAL~~

~~S-E-C-R-E-T~~

CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. Economic Organization and Policy	5
A. Soviet Organization and Policy	5
B. German Economic Organizations	15
1. Governmental Organization	15
2. Extent of State Control of the Economy	17
3. Economic Planning	20
C. Economic Policy	25
D. The "New Course"	27
II. Economic Development of East Germany	30
A. Over-All Development	30
B. Industry	32
C. Agriculture	38
III. Foreign Economic Relations	40
A. Pattern of Trade	40
1. East German Trade with the West	42
2. East German Trade with the Other Soviet Bloc Countries	44
B. Role of East Germany in the Soviet Bloc Economy	49
IV. Labor and Population	51
A. State Control over Labor	51
B. Manpower and Labor Planning	54
C. Labor Force and Population	55
D. Incentives and Other Devices to Increase Output	55
E. Migration	57
F. Scale of Living	58

~~S-E-C-R-E-T~~

~~CONFIDENTIAL~~

CONFIDENTIAL

~~S-E-C-R-E-T~~

Appendixes

	<u>Page</u>
Appendix A. Tables	61
Appendix B. Sources	69

Tables

1. Percentage of Gross National Product of East Germany by Sectors, 1952	31
2. Indexes of Production in East Germany by Sectors, 1938, 1946-52	33
3. Production of Agricultural Commodities in East Germany, 1952 and 1955 Plan	40
4. Foreign Trade of East Germany, 1948-52	41
5. Value of the Trade of East Germany with the West by Countries, 1948-49 and 1951-52	43
6. Commodity Composition of the Trade of East Germany with the West, 1948, 1949, and 1951	45
7. Distribution of the Trade of East Germany with Other Soviet Bloc Countries, 1948-52	47
8. Commodity Composition of the Trade of East Germany with Other Soviet Bloc Countries, 1949	48
9. Employment in East Germany by Sectors, 1952 and 1955 Plan	56
10. Production of Selected Commodities in East Germany, the USSR, and the Soviet Bloc, 1952	61

CONFIDENTIAL
~~S-E-C-R-E-T~~

~~CONFIDENTIAL~~

~~SECRET~~

Page

- | | |
|--|----|
| 11. Migration between West Germany and East Germany,
between West Berlin and East Germany, and between
West Berlin and East Berlin, by Time Period,
1948-52 | 65 |
| 12. Total Persons Passing Through the Emergency
Acceptance Procedure in Berlin by Age and Sex,
January 1952-June 1953 | 67 |

~~CONFIDENTIAL~~

~~SECRET~~

~~CONFIDENTIAL~~

CIA/RR PR-48
(ORR Project 10.103)

~~S-E-C-R-E-T~~

PROBABLE ECONOMIC DEVELOPMENTS IN EAST GERMANY THROUGH 1955*

Summary and Conclusions

The East German economy is the largest and most productive in the European Satellites. The gross national product (GNP) of East Germany in 1952 was about \$15.5 billion (1951 \$ US), the largest GNP among the Satellites, with the highest percentage of total GNP produced by industry. Like the other Satellites, East Germany in the postwar period has been progressively remodeled on the Soviet pattern. Transportation, the greater part of industry, nearly all financial services, and much of trade have been nationalized, and government controls over the private sector have been directed toward tying this sector to the directly planned economy with correspondingly reduced scope for private initiative. Controls over labor have reduced the unions to subservience to the government's economic administration, and several government measures permitting the compulsory assignment of workers to particular places of employment supplement Soviet-patterned wage differentials as a means of allocating workers to various industries and categories of employment. Only in agriculture has the Soviet remodeling of the East German economy failed to develop to the desired extent. The goal for eventual socialization of this sector, however, has been made explicit and remains in effect despite a temporary slackening of the pace toward its realization under the concessions of the "new course" which began in June 1953.

Soviet control over East Germany from the original occupation to the present has been complete. Although the USSR ostensibly has relaxed controls over the East German economy, there is no conclusive evidence that such a relaxation has in fact taken place, and there is some evidence that close Soviet supervision is remaining in effect. Every effort is being made to strengthen the East German Communist Party, through which much of Soviet control is exercised. The progressive changes in the organization of the East German government and economic administration have been directed toward closer

* This report contains information available as of 24 December 1953. It is a revision of the ORR contribution to NIE-94, circulated as IP-350, dated 19 November 1953.

~~S-E-C-R-E-T~~

~~CONFIDENTIAL~~

S-E-C-R-E-T

approximation to the Soviet prototype for the management of a centrally planned economy. Economic policy following the Soviet classic example has attempted to reorient the economy away from light industry toward heavy industry, and the planning methodology and procedures represent faithful attempts to follow current Soviet practices.

With its advanced technology, highly developed industry, and highly skilled labor force, East Germany has been exploited to the benefit of the USSR through heavy reparations and other forms of uncompensated deliveries. Even if the USSR is sincere in canceling reparations and making other concessions to East Germany, as long as the area remains under firm Soviet control its capacity to produce must be included in appraisals of Soviet capabilities for supporting hot or cold war. In 1952 the East German GNP represented about 8 percent of the total for the Soviet Bloc,* or about 14 percent of the Soviet GNP.

Under Soviet domination the East German economy is being integrated with that of the rest of the Soviet Bloc. About 75 percent of the foreign trade turnover of East Germany is currently with other Bloc countries, and the greater part of that is with the USSR. As an advanced industrial area, East Germany is an important supplier of machinery, chemicals, electrical engineering products, and precision equipment, and in return it receives from the USSR and the Satellites primarily agricultural and industrial raw materials, food, mineral fuels, lubricants, and certain manufactured products. East Germany contributes the following large percentages of total Bloc output of the indicated products: secondary copper, 39; refined lead, 10; ammonia, 29; nitric acid, 17; calcium carbide, 55; caustic soda, 29; refined phenol, 59; synthetic rubber, 22; rayon, 53; machine tools, 16; turbines, 18; and transformers, 16. On the other hand, East Germany is a relatively small producer of iron and steel, grains, vegetable oils, and natural fibers.

During the postwar period, production in the East German economy staged a rapid recovery from extremely low postwar levels, especially after 1948, when Soviet direct exploitation through dismantling and collection of war booty ceased and uncompensated Soviet withdrawals from current production were reduced. In 1952, however, the estimated GNP was still slightly below the 1938 level. The annual rate of growth leveled off sharply in 1952 to about 5 percent, and it is estimated that growth through 1955 will continue at about this rate.

* Including Communist China.

S-E-C-R-E-T

S-E-C-R-E-T

The growth of industrial production has been impressive since 1949, although the level attained by 1952 failed to reach the 1938 level by a small margin. The investment plans, however, on which the original plans for industrial production after 1952 depended, have not been fulfilled. Excessive concentration upon building up basic industries (such as ferrous metallurgy), poor planning, shortages of raw materials and of competent technicians, and the heavy burden imposed upon the engineering industries by reparations -- all these factors contributed to the failure to realize the planned increases in investment.

Agricultural production as measured in terms of leading crops and animal products still has not come up to prewar levels. The 1955 goals for agriculture under the Fifth Five Year Plan, though technically feasible, very probably will not be reached, because of the unfavorable reaction of farmers to the government's exactions in the form of compulsory deliveries and to the official interest in collectivization, which has continued despite the modest retreat since June 1953.

The scale of living in East Germany is still considerably below prewar levels. A number of factors have contributed to this situation: (1) production of investment goods has been favored at the expense of consumers' goods; (2) the population of the present area is about 10 percent higher than before the war, and East Germany has been obliged also to support the Soviet occupation troops; and (3) reparations and other uncompensated deliveries have imposed a heavy burden on the East German economy. In 1952, unfavorable weather resulted in poor yields of potatoes, sugar beets, and fodder, and harvesting was disrupted by the newly instituted drive for collectivization. At the same time, the government sought to add food to the state reserves. As a result of these circumstances the scale of living in 1952 declined for the first time since 1947. Not only did the scale of living decline in the latter part of 1952 and early 1953, but also the East German regime, under the slogan of building up socialism, adopted a number of harshly repressive measures of a political nature, such as increased arrests, greater severity of punishment for a broadened assortment of economic crimes, and increased persecution of the churches. As a consequence, migration from East to West Germany reached new high levels.

On 9 June 1953 the Communist Party of East Germany suddenly announced that the policies adopted and the actions taken during the preceding year as part of the program of building socialism had been

S-E-C-R-E-T

S-E-C-R-E-T

incorrect and that their "new course" would be to increase the scale of living by increasing the production of consumers' goods at the expense of the projected growth of heavy industry. On 17 June, widespread rioting occurred throughout East Germany.

There are many factors which influenced the timing of the riots. The impact of the newly increased work norms was especially onerous, and this by itself may have been the spark that finally transformed widespread but latent hostility to the regime into active protest. In addition, the fact that some concessions had already been announced by the government may have been interpreted by the workers as evidence of weakness and indecision on the part of the regime. The effect of the riots was to bring about further concessions and hasten their implementation.

The implementation of the "new course" has been materially aided by the USSR. In August 1953 a lengthy protocol containing a number of concessions to East Germany was announced jointly by the governments of East Germany and the USSR. These concessions included cessation of reparations deliveries, the return of Soviet-owned companies in East Germany to German control, and the promise of a large loan on the foreign trade account. In July, moreover, Soviet shipments of foodstuffs to East Germany increased significantly. These concessions were designed to bolster the sagging prestige of the East German regime and to strengthen it as an instrument of Soviet control over the area. In the short run the USSR appears to have given up some benefits from the East German economy, but in the long run the "new course" should tend to reduce popular unrest and make it easier to keep East Germany in the Soviet Bloc.

Under the "new course," plans for investment in heavy industry have been cut back, and plans for production of consumers' goods have been raised. Prices and taxes have been reduced, and wages have been somewhat increased. If the diversion of resources from heavy to consumers' goods industries takes place as planned, it will be possible for retail trade turnover to increase substantially. If East Germany is indeed freed from Soviet exactions, the projected increase in consumption is feasible.

The leaders of the East German regime have emphasized that the "new course" is not a retreat from the basic aim of achieving socialism but instead is a better way of realizing this goal. No retreat from the level of socialization achieved by the summer of

S-E-C-R-E-T

S-E-C-R-E-T

1952 is promised. Collectivization of agriculture is not being forced at present, but it has not been abandoned as an objective.

I. Economic Organization and Policy.

A. Soviet Organization and Policy.

Since the end of the war, Soviet economic policy with respect to East Germany has been conditioned by three basically conflicting aims: (1) to exploit East Germany as much as possible for the benefit of the Soviet economy, (2) to transform East Germany into a dependable Satellite with a planned economy along Soviet lines, and (3) to use East Germany and the promise of German unity as a means of extending Soviet influence in West Germany and of preventing the formation of an effective European Army. Until mid-1948 the first aim was dominant, and Soviet policy was one of ruthless exploitation through dismantling factories and levying heavy reparations from current production. Between 1948 and mid-1953, Soviet policy was to restore and enlarge the East German industrial base insofar as this was compatible with reduced, though still substantial, reparations deliveries, and to change the structure of the economy to conform to the Soviet model insofar as this was compatible with extending Soviet influence in West Germany. Beginning in the summer of 1952, rapid Sovietization seemed to have become the dominant policy, and the campaign for German unity seemed to have assumed a subsidiary role. On 10 June 1953 the SED (Sozialistische Einheitspartei Deutschlands -- Socialist Unity Party of Germany [East German Communist Party]) announced a number of measures, referred to as the "new course," that in effect revoked the policy of rapid Sovietization and also inaugurated a policy that promised to increase the real income of the East German people.*

Manifestations of Soviet policy with respect to East Germany may be divided into three categories: (1) direct action, (2) delegation of authority to German organizations, and (3) more or less covert action through these organizations. It may be said that all sections of the East German government, the parties, and the SED-controlled mass organizations are manifestations of Soviet policy. Thus there

* See D, below, for a discussion of the "new course."

S-E-C-R-E-T

S-E-C-R-E-T

is no real distinction between Soviet and East German policy. (For purposes of formal organization, the first two forms of Soviet action are discussed in this section, and the last, East German policy and organization, is discussed in the following section.)

According to the Potsdam Agreement (Article III, par. 14), Germany was to be treated as a single economic unit, and to that end common policies were to be established with respect to all important aspects of economic life. 1/* This condition has never obtained to any important degree. Decisions of the Allied Control Council were to be unanimous. 2/ As a result of this requirement and the fundamental disagreement of council members, no comprehensive program for Germany as a whole could be worked out.

In organizing the administration of their zone the Soviet authorities carried out, after their fashion, decisions of the Control Council to the effect that German provincial (Laender) administrations be established and also that certain central German administrative departments be established, "particularly in the fields of finance, transport, communications, foreign trade, and industry." 3/ Such departments were to act under the direction of the Control Council; but the Council as an effective governing body soon became unimportant, and the Soviet forces pursued an independent policy in the Soviet zone of occupation. 4/ The German Central Administrations established in the Soviet zone were under the direct supervision of the Soviet Military Administration (SMA), which was established on 9 June 1945. 5/ The Laender Administrations were supervised by the branches of the SMA in each Land. 6/

In the early days of the Soviet occupation, lines of command within both the Soviet and the German organizations were not clear. A number of special missions concerned with the seizure of war booty and the organization of reparations were operating in East Germany and were controlled directly from Moscow rather than by the SMA. In addition, many orders from Moscow regarding occupation duties were sent directly to the provincial SMA's without going through the "normal" channels of command. 7/ Numerous conflicts took place between various Soviet ministries that laid claim to East German installations and supplies and the SMA, which had the responsibility for maintaining

* Footnote references in arabic numerals are to sources listed in Appendix B.

S-E-C-R-E-T

S-E-C-R-E-T

internal order by supporting the troops in Germany and by fulfilling plans for exports and reparations from current production.

The principal Soviet policies were, however, sufficiently clear. During the first 3 years of the occupation, the USSR tried to restore East German industrial production as rapidly as possible at a time when little attention was given to such development in West Germany. At the same time, however, the USSR was quickly removing as much war booty as possible, such as livestock, raw materials, automobiles, tractors, and other valuables, as well as reparations in the form of industrial equipment. 8/ The Russians met with considerable success in each of these seemingly contradictory endeavors.

One of the most important early policy measures carried out by the SMA was the land reform begun in September 1945. All estates containing over 100 hectares were confiscated without compensation and distributed to owners of small- and medium-size holdings and to expellees. 9/ The land reform probably was intended to lead to collectivization, for many of the newly created farms were too small to be operated economically. 10/ Other Soviet measures sought to maintain the German structure of controlled prices by continuing in force the German price and wage ceilings. 11/ The SMA also blocked bank accounts and canceled interest-bearing state securities. 12/ The anti-inflationary effects of these measures were more than offset, however, by the reparations policy. From 1945 through mid-1948 the USSR took as reparations from current production about one-third of the total industrial production of East Germany. 13/ As a result, prices and wages could not be held at the 1944 level, and a severe inflation developed. 14/

Planning of production during the early years of the occupation was carried on by detailed command of the Soviet representatives. In carrying out Soviet orders, conflicts arose between the German Central Administrations and the provincial German governments. The Soviet representatives resolved this conflict through increased centralization of administration, by transforming the Central Administrations into the German Economic Commission (Deutsche Wirtschafts Kommission -- DWK) in 1947 and by giving the DWK extensive powers in economic affairs in February 1948. 15/ The DWK was the forerunner of the German Democratic Republic, which was proclaimed provisionally on 6 October 1949. 16/ Four days later the SMA announced its own dissolution and the formation of the Soviet Control Commission (SCC) and the Group of Occupation Forces in Germany (GOFG). 17/ The SCC

- 7 -

S-E-C-R-E-T

S-E-C-R-E-T

retained some of the economic functions of the SMA, and the GOFG assumed responsibility for the security of the Soviet occupation. 18/ These changes represented an increasing delegation of the functions of government to the Germans and also an increasing centralization of economic controls. In 1952 the SCC had a total personnel of about 3,000 as compared with 50,000 on the staff of the SMA in 1949. 19/ The five Land governments and East Berlin retained some control over local industry until the summer of 1952, when the Land governments were dissolved and replaced by 14 Bezirke (administrative districts), which were designated as local organs of the state executive, thus virtually completing the centralization of government. 20/

At the end of May 1953, it was announced that the SCC was dissolved and replaced by the Office of the High Commissioner for Germany, which was to limit its activities to representing the interests of the USSR in Germany and to overseeing the activities of the German Democratic Republic under the Potsdam Agreement. At the same time, the Chief of the Soviet Forces in Germany was relieved of responsibility for supervising the East German government. 21/

The constitution adopted by the People's Congress in May 1949 gave the German Democratic Republic a greater degree of control over its own affairs than was granted the West Germans a few days later. Soviet Bloc constitutional edifices, however, are notoriously at variance with political realities, and the constitution of East Germany is no exception to this rule. 22/ In theory, the formation of the SCC represented a change from direct Soviet control to mere supervision, but no known contractual agreement was drawn up defining this relationship. Thus the Soviet authorities have remained free to exercise an arbitrary veto over all acts of the East German government. 23/

Economic planning in East Germany reportedly is conducted very much as in the USSR. According to one reliable source, the forms, nomenclature, and commodity code have been taken over unchanged from Soviet practice. 24/ According to the same source, the East German State Planning Commission receives mandatory goals for the production of key products on a yearly basis from the economic planning departments of the SCC. The extent to which these goals are set forth in detail is not

S-E-C-R-E-T

S-E-C-R-E-T

known, but it is likely that they comprise the 90-odd products and product groups shown on an East German classified report called "Key Positions of the People's Economic Plan" (Schluesselpositionen des Volkswirtschaftsplanes). 25/ In the past, Soviet authorities have kept a close check on the planning process at the ministry and planning commission levels and in some cases even at the plant level. It is not known whether or not the change from the SCC to the Office of the High Commissioner has resulted in any real lessening of Soviet controls over East German planning and production. Generally speaking, orders for reparations goods, for exports to the USSR, and for SAG Wismut* have received top priority in the procurement of raw materials and labor in East Germany. 26/ In the fall of 1952, orders for the East German armed forces were given top place on the priority schedule. 27/ Information on the priority schedule since the inauguration of the "new course" is unavailable at present.

From the end of the war until mid-1948 the procurement of reparations in one form or another dominated Soviet economic policy in East Germany, and throughout the entire postwar period reparations policy has been the most important single factor influencing East German economic development. The following brief account of Soviet reparations policy and practice is necessary in order to give perspective to the recent Soviet announcement that reparations are to cease beginning on 1 January 1954.

The Yalta and Potsdam Agreements asserted the principle that Germany should compensate to the greatest extent possible for the damage caused to the Allied nations. 28/ At Yalta the USSR demanded \$10 billion worth of capital equipment and goods from current production at 1938 prices as reparations from Germany. The Allies did not reach final agreement on the subject, but the USSR has continued to use the figure of \$10 billion as the basis for its reparations claims. 29/ The Potsdam Agreement (of August 1945) provided that the reparations claims of the USSR should be met by removal of capital equipment and current production from the zone of Germany occupied by the USSR and by seizure of appropriate German external assets. 30/ The Potsdam Agreement provided further that payment of reparations should leave enough resources to enable the German people to subsist without external assistance. 31/

* Soviet enterprise in East Germany engaged in mining uranium ore.

S-E-C-R-E-T

S-E-C-R-E-T

War damage and dismantling reportedly reduced the capacity of East German industry to about 50 percent of 1936 capacity. 32/ About 30 percent of the total reduction was due to war damage, and about 70 percent to dismantling. 33/* In view of the subsequent rapid recovery of production, these estimates of reduced capacity appear to be based on inability of plants to operate because of loss of essential machinery, rather than on complete loss of fixed capital.

In December 1945 the SMA ordered some 200 of the largest and most important factories transferred to Soviet ownership and management. 34/ It has been alleged that these plants were originally scheduled for dismantling as reparations but were saved, in the words of Marshal Sokolovskiy, "in order to provide employment and part of the output for the German economy." 35/ These Soviet corporations, which are known by the abbreviation "SAG," for Sowjetische (later Staatliche) Aktiengesellschaften, are administered by USIG (Upravleniye Sovetskovo Imushtchestvo v' Germanii -- Administration of Soviet Property in Germany). 36/ The SAG's are registered in Germany as public companies of limited liability owned by the USSR. 37/ The SAG's pay the USSR a yearly rent for the property and installations and also their profits, if any. 38/ It is reported that they are subsidized from the East German budget in the event losses are incurred. 39/ Investment in the SAG's also is believed to come out of the East German budget, but it is assumed that these sums are credited to the Soviet reparations account. 40/ Most of the production of the SAG's, especially in recent years, has been sent to the USSR as reparations, exports, or profits in kind. 41/ Soviet authorities were reported to have returned 74 SAG's to German ownership (as nationalized firms) in 1947, and they returned 23 in May 1950 and 66 more in May 1952. 42/ According to the Soviet-East German Protocol of 23 August 1953, the remaining 33 SAG's (not including SAG Wismut) are to be returned, without compensation, to German ownership on 1 January 1954. 43/** The SAG's returned in 1950 and 1952 and possibly those returned in 1947 had to be paid for by the Germans. 44/ The Protocol of 23 August 1953 provided that the remaining East German debt of DME (Deutsche Mark East) 430 million for the 66 SAG's returned in 1952 would be canceled. 45/

* The West German Social Democratic Party (SPD) estimates the value of war booty and dismantled factories at about RM.(Reichsmark) 5 billion for each category.

** These figures leave four SAG's unaccounted for, but they probably were absorbed by other SAG's.

S-E-C-R-E-T

S-E-C-R-E-T

From 1945 until the present time, the SAG's have formed a powerful economic empire within East Germany. The value of the production of the last 33 SAG's to be returned is estimated to be from 15 to 18 percent of the total value of industrial production in East Germany. 46/ The SAG's are included in the Five Year Plan, but their production plans and material requirements have had to be accepted in toto by the East German planning authorities. 47/ There is little evidence to indicate that the USSR does not intend to relinquish direct control over the SAG's as provided by the Protocol. In the absence of information to the contrary, it must be assumed that the USSR considers the political advantage to be gained in giving up the SAG's to be worth the loss of about DME 400 million a year in profits from the last 33 SAG's 48/ and the loss of direct control over an important segment of East German industry.

SAG Wismut was founded by the Soviet authorities in 1945 or 1946 for the purpose of mining uranium ore in East Germany. 49/ It is ultimately supervised by the Council of Ministers of the USSR. About 300 ore-bearing shafts in the neighborhood of Aue in Saxony and Saalfeld in Thuringia are being worked. 50/ Including subsidiaries that supply the mines with equipment, SAG Wismut employed about 225,000 people in the fall of 1951. 51/ Working conditions have improved during the course of time from catastrophic to miserable. 52/ Wages are high, but other pressures must be used to force people to work in the mines. 53/ The West German Ministry for All-German Questions estimates the yearly cost of SAG Wismut in wages and equipment at DME 2.5 billion. 54/ This estimate is based on average wage rates and employment and assumes wages to be about half of total costs. A part of the profits of the other SAG's and the Soviet trading companies is reportedly used to help defray the cost of SAG Wismut. 55/ Moreover, payments for the support of SAG Wismut probably are made from the East German budget. 56/ Payments of DME 400 million and DME 600 million in 1950 and 1951, respectively, to the Soviet-owned Guarantee and Credit Bank are believed to be for this purpose. 57/ The estimated profit of the SAG's for those years is DME 600 million to DME 700 million. 58/ The sum of these two items amounts to only half of the yearly cost of operation of SAG Wismut as estimated by the West German authorities. Other sources of financing are not known but might be the funds taken from East German banks after the capitulation. Withdrawals from the account of the Soviet-owned Guarantee and Credit Bank with the Deutsche Notenbank were about DME 1.1 billion in 1950. 59/ It is understood that this account was almost exhausted by the end of 1950. 60/ In his address before the People's Chamber (Volkskammer) on 25 August 1953,

S-E-C-R-E-T

S-E-C-R-E-T

Otto Grotewohl stated that a joint Soviet-German Wismut corporation was to be formed on a basis of parity. 61/ It is possible that, the Russians having exhausted hoarded supplies of marks and given up the SAG's as a source of funds, a joint company is being formed as an excuse for continuing to require the East German government to bear a large share of the cost of SAG Wismut.

The Soviet trade and transport companies are an important adjunct of Soviet economic activities in East Germany. They are supervised by the Soviet Trade Delegation in East Germany, which is a subdivision of the Soviet Ministry of Foreign Trade. 62/ There have been as many as 16 Soviet trade and transport companies operating in East Germany, each ostensibly specializing in a group of related products. 63/* Their main task has been the organization of the export

* The Soviet trading and transport companies believed to be operating in East Germany at the present time are as follows:

Exportlen (flax, yarn, fibers, jute, cotton, wool, and products made from these materials)

Exportles (such as wood, paper and paper products, and cellulose)

Mashinoimport (equipment for mining, metallurgy, power plants, and transport industries)

Promexport (coal and chemicals)

Promsyryeimport (ferrous and nonferrous metals and scrap)

Sovexportfilm (Soviet movie film and exchange agency)

Soyuzpushchina (furs, pelts, live animals, and fur products)

Tekhnoexport (machines for automotive industry, agricultural machinery, tractors, electrical goods, and metal-processing machines)

Tekhnopromimport (equipment for the chemical, food-processing, paper, rubber, textile-printing, and leather industries; leather goods; telephone and telegraph equipment; control and precision machines; and laboratory, X-ray, and optical equipment)

S-E-C-R-E-T

S-E-C-R-E-T

of reparations and SAG goods, but they also have reportedly procured scarce goods for the USSR from Western countries and engaged in all sorts of black-market activities. 64/

As part of the Protocol of 23 August 1953 the Russians announced that reparations from Germany would cease on 1 January 1954. 65/ The Protocol stated further that at the end of 1953 the unpaid balance which was to be canceled would amount to \$2,537 million. Since in May 1950 the Soviet News Agency announced that total Soviet reparations demands had been reduced from \$10 billion in 1938 prices to \$6,829 million, 66/ it appears that the USSR by its own calculations will have received from Germany \$4,292 million worth of reparations in 1938 prices by the end of 1953. West German authorities agree that \$4.3 billion in 1938 prices is a considerable understatement of total Soviet takings from East Germany, excluding occupation costs. The USSR does not recognize as reparations several forms of exploitation of the German economy such as war booty, the expenditure of captured Reichsmark and printed occupation currency, transportation and packing of reparations goods, and profits and rents paid by the SAG's. The West Germans also believe that additional payments were made to the SAG's and the SMA and that these payments were charged neither to reparations nor to occupation costs. *? will?*

The West German Social Democratic Party (SPD) gives an estimate of total Soviet takings for 1945-52 as RM/DME 78.6 billion in current prices, including RM/DME 7.6 billion for occupation costs. 67/ The SPD converts this at the rate of RM/DME 2.5 equals \$1 to arrive at \$31.4 billion, which probably should be considered a maximum estimate of total Soviet takings from the German economy. The SPD estimate of reparations from current production in 1950 and 1951 is over 2.5 times as high as estimated by State, HICOG, Berlin, for those years. State estimates total Soviet takings for 1950, including occupation costs, to have been about DME 6 billion; and for 1951, DME 4 to 4.5 billion. 68/ The SPD estimates Soviet takings for 1951, excluding occupation costs, at DME 5,041 million. 69/ Addition of DME 1,950 million for occupation costs (the figure used by State and exactly the same as the figure given in the Protocol of 23 August 1953 for 1953 occupation costs) gives an SPD estimate of total takings for 1951 of DME 6,991 million. Since the original data underlying both these estimates are not available, it is not possible to evaluate them, and the figures are given only to indicate the approximate magnitude of Soviet takings.

S-E-C-R-E-T

S-E-C-R-E-T

A question of considerably greater interest than the value of total reparations is the current value of Soviet takings and the amount of current income from East Germany to be given up by the USSR under the terms of the Protocol of 23 August 1953. The concessions in the Protocol affecting current Soviet income from East Germany are the return of the 33 SAG's, the cessation of reparations, the reduction of occupation costs, and the cancelation of the debt of DME 430 million still owing on the 66 SAG's returned in May 1952. 70/

The profits of the SAG's were estimated at DME 600 million to DME 700 million yearly in 1950 and 1951. 71/ Since the return of the 66 SAG's in 1952 reduced the SAG's share of East German industrial production from about 25 to 27 percent 72/ to 15 to 18 percent, it is assumed that profits were correspondingly reduced -- that is, to about DME 400 million, disregarding any change in profits from 1951 to 1952. The Protocol announced that occupation costs in 1954 will be DME 350 million less than in 1953. 73/ Nothing is known about the rate at which the debt on the 66 SAG's was being paid off, but for the purpose of estimating the annual Soviet takings, a rate of DME 215 million a year in 1954 and 1955 is arbitrarily assumed.*

Greatest difficulty is found in estimating reparations from current production, because more information is available and not all of it is consistent. Estimates of reparations from current production range from a high figure of DME 2.4 billion for 1952 reparations given by the SPD 75/ to a low of about DME 1 billion suggested by East German budget data published by State, HICOG, Berlin. 76/ An intermediate figure of DME 1.4 billion can be derived by applying a dollar-mark conversion ratio of \$1 equals 2.5 marks (the prewar rate, which the Russians are said to use) and a price inflator (1.75) to the 1938 dollar figures published by the Soviet sources. By adding to the reparations from current production the estimated SAG profits of DME 400 million, DME 215 million for debt repayment, and DME 350 million for the saving on occupation costs, one arrives at estimates ranging from DME 2 billion to DME 3.4 billion as the annual sum which East Germany will be relieved of paying the USSR during the next 2 years. These sums amount to 4.5 and 7.6 percent, respectively, of an estimated East German GNP of DME 44 billion in 1953.

* This is a minimum estimate. The value of the SAG's returned in 1952 has been estimated at DME 1.6 billion, which would have meant a repayment rate of DME 600 million a year in 1952 and 1953. 74/

S-E-C-R-E-T

S-E-C-R-E-T

B. German Economic Organizations.

1. Governmental Organization.

The East German central government came into existence in a de facto sense on 13 February 1948, when the German Economic Commission (Deutsche Wirtschafts Kommission -- DWK) was expanded and given extensive powers by order of the chief of the SCC, Marshal Sokolovskiy. 77/ The transfer of power from the provincial governments to the DWK was completed by a transfer of property, in which the largest and most important nationalized firms, whose capacity amounted to two-thirds of the capacity of nationalized industry under German administration, passed from the control of the provincial governments to the DWK. 78/ Since the Soviet-appointed membership of the DWK contained a large proportion of important members of the SED, the centralization of German governmental organizations increased the influence of the SED. The nature of the relationship between the SED and the DWK was made clear in July 1948 by the handling of the Two Year Plan. This plan was first presented as the plan of the Party at the Annual Congress of the SED, and it was subsequently adopted by the DWK without substantial change. 79/ The SED was at that time, and still is, the de facto German government of East Germany, but its operations are monitored and controlled by the Soviet authorities. The provisional German government proclaimed in October 1949 was confirmed by the People's Chamber (Volkskammer), elected from a single list of candidates, on 15 October 1950. 80/

The economic administration of East Germany is concentrated in the Council of Ministers, which consists of a minister president, his 6 deputies, 17 functional ministers, a minister of coordination and control, the chairman of the State Planning Commission, and 6 state secretaries with their own fields of responsibility. 81/ The list of ministries includes those customarily found in a European government (for example, foreign affairs, interior, and finance) and other ministries whose functions are directly related to the management of the nationalized industry (for example, the Ministry of Heavy Machine Construction). The ministries concerned with the administration of nationalized industry have been reorganized almost yearly. In the latest reorganization, announced on 4 November 1953, a new Ministry of Heavy Industry has been created which will take over the

S-E-C-R-E-T

functions of the former Ministry of Metallurgy and Mining; the State Secretariat for Coal and Energy; and the State Secretariat for Chemicals, Stones, and Earths. 82/

Three important reorganizations of the East German government took place in 1952. The first occurred under the "Law on the Government of the German Democratic Republic" of 23 May 1952, which incorporated the following essential features 83/:

- a. It increased the number of deputy prime ministers from 5 to 6 and added a minister without portfolio to be in charge of coordination and control.
- b. It established five coordination and control bodies within the Office of the Minister President.
- c. It authorized the government to adapt its structure to the requirements of the economic plan by acting on its own decision.
- d. It extended the right of the Council of Ministers to establish autonomous state secretariats assigned to special tasks.

The second reorganization established a Presidium within the Council of Ministers on 17 July 1952. 84/ The Presidium is the top executive body in the East German government and consists of 7 voting and 7 nonvoting members. The nonvoting members are the five chiefs of the coordination and control offices, the Chairman of the State Planning Commission, and the Chairman of the Central Commission for State Control. The law of 23 July 1952 on the "Further Democratization of the Structure and Functioning of the State Organs in the Laender of the German Democratic Republic" abolished the last vestige of federalism in East Germany. This third reorganization provided for the following 85/:

- a. The replacement of the 5 Land governments by 14 Bezirke (administrative districts).
- b. An increase in the number of Kreise (counties) from 143 to 217.
- c. The transfer of the functions of the Land governments to the central government and the Bezirk councils.

S-E-C-R-E-T

S-E-C-R-E-T

d. The dismissal or reassignment of the personnel of the Land governments to the new Bezirk councils.

As a result of these changes, the government of East Germany approximates more closely the Soviet model for the operation of a centrally planned and directly controlled economy. An unconfirmed report received on 6 November 1953 states that a further reorganization of the GDR government has taken place. ^{86/} According to this report, the coordination and control bodies have been abolished, but a new "Office of the Council of Ministers" designed to implement Council decisions has been created. This new office is reported to have under it a larger number of control groups. The staff of the "Office of the Council of Ministers" is reported to consist of Grotewohl, Ulbricht, Leuschner, Stoph, Rau, Selbmann, and Wach. If this report is true, it indicates a greater degree of centralization of power in the hands of these men.

2. Extent of State Control of the Economy.

The German-owned nationalized enterprises (Volkseigene Betriebe -- VEB) derived initially from the expropriation of firms owned by the government and leading Nazis. On 30 June 1946 the people of Saxony voted "yes" to a referendum calling for the expropriation and socialization of factories owned by "nationalist monopoly capital and Hitlerite fascists," and this decision was enforced throughout East Germany without much more ado. ^{87/} Although the Soviet-owned plants and the German-owned nationalized enterprises together comprised not more than 10 percent of the number of plants in East Germany, it is estimated that they accounted for about 75 percent of the total value of industrial production in 1950. ^{88/} According to Ulbricht, this share had risen to 80 percent by the end of 1952. ^{89/} The goal of the Five Year Plan is that 81.2 percent of total production is to be produced by nationalized and comparable (SAG) firms by 1955. ^{90/} The Five Year Plan implies that this increase in the share of nationalized industry in industrial production is to come about through a relatively greater increase in the production of the nationalized sector. The Plan provides that the value of the production of the nationalized firms* shall increase during the 5 years by 124.8 percent, while the production of private industry is to increase by 66.7 percent and the production of handicrafts by 66.5 percent. ^{91/}

* Presumably not including SAG's.

S-E-C-R-E-T

S-E-C-R-E-T

Heavy industry is entirely nationalized in East Germany. The 20 percent of industrial production still in private hands is restricted almost entirely to small-scale consumers' goods industries, such as flour mills, clothing firms, woodworking establishments, and handicrafts. 92/ There also are several thousand small machine shops. 93/ Handicrafts undoubtedly comprise the largest part of private industry. In 1949 there were 304,000 handicraft shops employing about 980,000 people in East Germany. 94/ These establishments are required to belong to the Handicraft Chambers in their localities and are encouraged, mainly by tax privileges and larger supplies of raw materials, to form handicraft cooperatives. 95/ Handicrafts are regulated by the "Law for the Advancement of Handicrafts" of 16 March 1951. 96/ This law provides, among other things, that in order to secure materials, a handicraft establishment must conclude contracts with the State Contract Office (Vertragskontor), or with a nationalized firm, thus tying the handicraft firms to the directly planned sector. Prices and wages in the handicraft trades are fixed by law. The consequence is that, though private industry still exists, very little scope is left for private initiative.

German telephone and telegraph communications and rail transport were nationalized before the war. In addition, barge and truck transport are now nationalized. Wholesale trade in East Germany today is almost completely nationalized. German Trade Controls (Deutsche Handelszentrale -- DHZ's) for each principal industry are subordinate to the ministry to which their industry belongs and operate as wholesalers for the nationalized industry. 97/ State Contract Offices operate as wholesalers on the local level for private industry and the cooperatives. 98/ The Associations of People's Owned Procurement and Purchasing Enterprises (Vereinigungen Volkseigener Erfassungs- und Aufkaufbetriebe -- VVEAB) function both as wholesalers of agricultural products and purchasing agents for private, cooperative, and nationalized farms. 99/ Next to agriculture, retail trade and the professions have the largest proportions of private enterprise of any sector of the economy. Retail trade is carried on by the state-owned shops (Handelsorganisationen -- HO's), the consumers' cooperatives, and private firms. 100/ In 1950, the last full year for which actual data are available, 26.6 percent of the total retail trade was handled by the HO's, 16.8 percent by the cooperatives, and 56.5 percent by private firms. The Plan for 1955 was 40.7 percent of turnover to be handled by the HO's, 25 percent by the cooperatives, and 34.3 percent by private firms. 101/

S-E-C-R-E-T

S-E-C-R-E-T

The banking system of East Germany has been entirely nationalized since 1946 and completely centralized since the end of 1950. The system consists of the German Bank of Issue (Deutsche Notenbank), with 14 branches and about 300 subsidiaries and depositories; the German Investment Bank, with 15 branches and 23 subsidiaries; the German Farmers' Bank, with 14 branches and 3,150 State loan offices run by the Farmers' Trade Cooperatives; the 125 Savings Banks, with 2,300 depositories; and the Guarantee and Credit Bank, which is Soviet-owned and handles all of the banking of the Soviet High Commission, the GOFG, the SAG, and the Soviet trading and transport companies. 102/

Agriculture is the least socialized sector of the economy of East Germany. Until July 1952, collectivization of agriculture was approached only indirectly in East Germany. The land reform of 1945, in which estates over 100 hectares were broken up and distributed to owners of small- and medium-size holdings and to expellees, seemed to be a step in the opposite direction. By the end of 1949, only 1 percent of the farms were over 125 acres, and 78 percent were under 25 acres. 103/ It is probable that many of the new farms were deliberately made too small to be economically operated and that the USSR intended to achieve collectivization in East Germany gradually through the voluntary cooperation of the farmers with Machine Tractor Stations (MTS's)* and the Farmers' Mutual Aid Association (Vereinigung der gegenseitigen Bauernhilfe -- VdgB). The MTS's, which were founded in 1949, took over the tractors and equipment acquired from farms expropriated under the land reform. Starting out with about 4,800 usable tractors, the number of MTS's increased to 585 active stations with a park of about 20,000 tractors (calculated in terms of 30-horsepower units). 104/ These stations do not lend their machines but send their operators and equipment out to the farms to plow and harvest. Fees per hectare of work performed increase with the size of the farm, a measure designed to divide the peasantry into opposing factions with a view toward voluntary collectivization of the smaller farmers and eventual elimination of the larger units. 105/ The VdgB, which during the early years of the occupation was the collecting agency for agricultural products, was amalgamated with the village cooperatives (Bauerliche Handelsgenossenschaften -- BHG's) in 1950, and the collection function was transferred to the VVEAB. 106/ The VdgB is now primarily a political organization, but it also handles some purchasing of supplies for the farmers and agricultural loans. The VVEAB, in conjunction with the Ministry of Agriculture and Forestry, plans and

* Formerly Machine Lending Stations (MAS's).

S-E-C-R-E-T

S-E-C-R-E-T

sets the quotas for, and prices of, farm products to be delivered each year. Both prices and quotas have tended to discriminate against large farmers. 107/ These organizational changes in agriculture parallel changes in other Satellites in Europe, but the Sovietization of agriculture is less advanced in East Germany than in the other Satellites.

State farms (Volkseigene Gueter -- VEG's) have existed in East Germany since 1949. There are now about 513 VEG's with an estimated agricultural area of 212,000 hectares, or approximately 4 percent of the total arable land. 108/ The VEG's are supposed to function as experimental and model farms, and as sources of seed and breeding stock.

Collectivization of agriculture as a goal of agricultural policy was admitted by the SED for the first time at the Second Party Conference in July 1952, when a program for the formation of agricultural cooperatives was announced. 109/ Although the formation of the cooperatives was ostensibly voluntary, farmers were subjected to a variety of pressures to get them to join. By mid-1953 there were 3,255 agricultural production cooperatives (Landwirtschaftliche Productiongenossenschaften -- LPG's) farming 14 percent of the total arable land. 110/ Most of the cooperatives were small. The average size was estimated to be about 125 hectares of arable land farmed by 21 members and their families.

3. Economic Planning.

The East German State Planning Commission receives yearly from the Economic Planning Department of the SCC mandatory goals for the production of key products. 111/ How detailed these goals are is not definitely known, but it is likely that they comprise the 90-odd basic materials and commodity groups shown in the "Key Positions of the People's Economic Plan." 112/ The key position figures received from the SCC are expanded by the State Planning Commission to include additional products and product groups, and it is this list of production targets, called "control figures" (Kontrollziffern), to which the remainder of production and all resource allocation must adjust. Good authority states that there were 300 such figures in the 1952 planning. 113/ These control figures for the yearly plans are distributed by the State Planning Commission to the appropriate ministries and state secretariats, which expand them further and distribute the production targets to the nationalized firms, directly

S-E-C-R-E-T

S-E-C-R-E-T

in some cases and in others through the associations of nationalized firms or the Bezirk administration. 114/ The nationalized firms then work out requirements plans incorporating the material, labor, investment, and subsidies necessary to meet the Plan goals expressed in the control figures. According to the West German Ministry for All-German Questions, these control figures can in no way be lowered by the ministries, state secretariats, or nationalized firms but are frequently raised by them. 115/ The requirements plans follow the same route back to the State Planning Commission and are adjusted and aggregated at each higher administrative level.

The State Planning Commission then "balances" the material requirements with available resources and, in consultation with the Ministry of Finance, draws up the plans for production, investment, finance, export, import, and material and labor supply. 116/ Additions to state reserves may be incorporated into planned production to meet emergency production requirements. The individual plans are reported to be synchronized exactly in quantitative terms only with respect to the key positions laid down by the Russians. For the other products, only a rather general or aggregative balancing takes place. 117/

A good many reports were received near the end of 1951 about unrealistic goals laid on from above and about insufficient knowledge on the part of the State Planning Commission of actual capacities and lead times. 118/ Thereafter, occasional references were made to planning "from below to above instead of from above to below." 119/ The first of a series of articles in Die Wirtschaft, entitled "Balancing in Economic Planning," stresses the point that since all parts of the economy are related, all parts of the Plan must be worked out simultaneously. 120/ This view is borne out by the procedures for preparation of the Economic Plan for 1953, passed by the East German Cabinet on 30 May 1952. 121/ The ministries, state secretariats, and Land governments were directed to instruct the nationalized firms to begin preparatory work immediately for the 1953 Plan, to establish contracts immediately with each other, and to conclude temporary contracts for 1953 in order to guarantee the sale of the items to be produced in 1953. 122/ The Ministry of Foreign and Domestic Trade* was likewise directed to begin preparations for 1953 trade agreements. All of this was to take place

* Ministerium fuer Aussenhandel und Innerdeutschen Handel. Innerdeutschen here means "interzonal." In translating Innerdeutschen as "Domestic," the State Department convention is followed.

S-E-C-R-E-T

S-E-C-R-E-T

before the confirmation of the 1953 control figures by the Cabinet. It appears that the nationalized firms are directed to start planning on the basis of the production of the previous year and of the goals of the Five Year Plan.

The place of private enterprise in the system is not clear. In those cases where the products of a private firm are consumed by a nationalized firm, the nationalized firm contracts for the production of the private firm and receives an allocation of raw materials for transmittal to the private firm. Otherwise, private firms receive their allocations of raw material (if any) from the State Contract Offices under the Bezirk and Kreis administrations. 123/ Generally, the Bezirk administrations receive their control figures only in value terms. Occasionally, when there is a private firm in the Bezirk whose production is particularly important, control figures are received in quantitative terms. 124/

The nationalized firms receive their production quotas in quantitative and value terms or only in value terms, depending upon the nature and relative importance of the product. Production is planned in terms of Plan prices, or Messwerten. Messwerten, literally translated, means "measuring values." They are based on the prices used in the 1950 Plan, which were, for the most part, current prices. 125/ The Messwerten were fixed for the duration of the Five Year Plan and were intended to take the place of a price index -- that is, to permit the measurement of the change in production in constant prices. The Messwerten apply to the gross production of a factory as defined by the products contained in the General Commodity Code (Allgemeine Warenverzeichnis), regardless of whether or not they are consumed entirely or in part within the factory. 126/

In some aspects of planning, such as the planning of sales, current prices are used. These prices take the usual form of factory, wholesale, and retail, with the latter divided into HO prices and rationed prices. Current prices are fixed by law. They derive originally from the 1944 ceiling prices, which were continued in effect by order of the chief of the SMA, 127/ but they have been changed piecemeal over the years.

The East German planning authorities intend eventually to recalculate all prices on the basis of the Marxian labor theory of value. 128/ They do not seem to have solved in theory the problem of expressing in prices relative scarcity deriving from demand.

S-E-C-R-E-T

S-E-C-R-E-T

In practice, the problem is partially solved on an ad hoc basis by manipulating the turnover tax rates on retail sales and by the use of a priorities system for allocating raw materials and components within the nationalized economy.

Although the "balancing" of planned production and material requirements by the State Planning Commission theoretically equates supply and demand, it has not balanced supply and demand in practice. Goods have been produced according to Plan which could not be sold at fixed prices, while at the same time the raw materials used in their production have been in short supply. The import plans seem never to be fulfilled on time, and raw material shortages are chronic. In order to assist the economy in balancing supply and demand as planned by the State Planning Commission, the "Law on the Introduction of the General Contract System for Goods Deliveries in the Nationalized and Comparable Industry" was passed in December 1951. ^{129/} This law provides that within a month after the distribution of Plan goals to the firms, they must complete contracts with other firms and with import and export agencies for both their material requirements and the sale of their products. Financial penalties are imposed on the firm for nonfulfillment of these contracts. The General Contracts Court has been set up to handle disputes arising from the operation of this law. The result of these cases has usually been that no penalty has been imposed, because the nonfulfillment can be traced back to an event for which nobody in East Germany can be blamed, often to the nonfulfillment of the import plan. The law provides, however, an important incentive to the factory manager to fulfill his production plan, since by the "Law on the Reorganization of the People's Owned Industry" of 22 December 1950, the individual firm manager is responsible for operating the firm as economically as possible. ^{130/} Before the passage of this law, profits and losses were equalized among the firms belonging to an association of nationalized firms (Vereinigung Volkseigener Betriebe -- VVB's).

Financial planning in East Germany serves the purpose of control rather than direction, the latter being determined by the over-all economic plan. The nationalized firms receive their circulating capital from the Deutsche Notenbank and pay it back according to plan. Profits, subsidies, and the reduction of operating costs are planned. Until 1953, amortization funds were paid into the state treasury and redistributed by the German Investment Bank, not as loans, but as grants, to industry for investment

S-E-C-R-E-T

S-E-C-R-E-T

purposes. Beginning in 1953, nationalized firms must use their amortization funds and may use a part of their profits for planned investment. 131/ Additional funds for investment are available through the German Investment Bank. Of course, no investment may be undertaken that is not planned, and the banking system is directed to see that funds are spent only as planned.

The currency plan is an important aspect of East German financial controls. Under the "Law for Control of Payments," dated 21 April 1950, 132/ particularly under its second implementation of 28 June 1950, a sharp distinction is made between two different groups of money users. The first group comprises practically all private persons, small tradesmen with a yearly turnover of less than DME 20,000, landlords with less than DME 250 monthly income, and members of the professions with less than three employees. The second group comprises the bulk of the economy -- that is, all other persons, enterprises, and organizations. The use of cash is restricted mainly to the first group. Private persons are subject to no limitations as to its internal use. Since bank accounts of private persons and of small private industry are kept exclusively with the savings banks or cooperative banks, it is easy to handle them differently from the accounts of the rest of the economy. 133/

The enterprises and organizations are permitted to accept cash, but they may not spend such receipts as cash except in transactions amounting to no more than DME 50. Otherwise, they are under obligation to pay all cash receipts immediately into accounts with credit institutions. 134/ For payment of wages, they receive the required cash from the credit institutions, subject to submission of their payrolls. Since the Deutsche Notenbank knows the wage bill, retail turnover, and savings deposited in banks for any given period, the Notenbank can theoretically calculate the amount of cash being hoarded and going into illegal trade.

The Deutsche Notenbank has a phobia about inflating the currency and apparently confuses the amount of hand-to-hand money with the total supply of money. It has maintained the amount of currency in circulation almost constant at about DME 3.5 billion since the end of 1949, 135/ despite rising wages and an increase in retail turnover. As a result of this procedure, a serious shortage of hand-to-hand currency has developed in East Germany. 136/ It is uncertain whether the shortage is a result of a miscalculation on the part of the Notenbank as to the amount of currency needed or

S-E-C-R-E-T

S-E-C-R-E-T

whether sizable sums are being hoarded. Toward the end of 1951 the Notenbank calculated that about DME 2,100 million in circulation could not be accounted for. ^{137/} This amounted to roughly DME 300 per capita of all gainfully employed persons. ^{138/} It is highly unlikely that this sum was evenly distributed among the population, because the scale of living has been so low that many such cash hoards would have become effective demand for unrationed goods in the HO's. State, HICOG, Berlin, concludes that "the SED, the semi-official trading organization, the occupation power, economic enterprises (particularly private industry), trade and agriculture, and black marketeers have large cash holdings and that there are large-scale transactions in the economy outside the plan." ^{139/} Because currency has become scarce, the Notenbank may have concluded that cash hoards are larger now than in 1951. The real or fancied existence of this unaccounted-for cash may be one reason for the frequent rumors of an impending currency reform in East Germany. Such rumors, however, cannot always be accepted as reliable indicators, because currency reform rumors are the stock in trade of black marketeers of currency.

If the East German authorities contemplated a currency reform, it is likely that it was to assist in the program for "building socialism."* A currency reform would not be consistent with the present policy of increasing the real income of the population. A reform that did not touch savings in banks might, however, be politically feasible.

C. Economic Policy.

The organization of the economy described above was virtually complete by the end of 1950, with the exception of the agricultural cooperatives. East German economic policy from 1950 until mid-1952 concentrated on fulfilling the goals of the Five Year Plan and improving the functioning of the existing organization. Further socialization was played down and the theme of German unity emphasized. ^{140/}

In July 1952 the Second Party Conference of the SED signaled an abrupt shift in policy. The conference announced that the time had arrived for East Germany to proceed with "building socialism." According to the decisions of the conference, the building of socialism required the following ^{141/}:

* The program for "building socialism" consists of the various measures for Sovietization of the economy and for its development under centralized planning following the Soviet model. See C, below.

- 25 -

S-E-C-R-E-T

S-E-C-R-E-T

1. The creation of a national army.
2. The strengthening of the state through a reorganization of the government and the rewriting of the labor, civil, and criminal codes.
3. The creation of the economic basis for socialism by quickly breaking the bottlenecks in basic industries, increasing labor productivity, improving the quality of production, and so on.
4. The formation of agricultural producers' cooperatives.
5. The strengthening of the ideological orientation of Party members and the elimination of the last vestiges of capitalistic thought and methods from the nationalized economy.

Following the Second Party Conference, the atmosphere of terror and oppression in East Germany increased appreciably. Persecution of the churches increased, and membership in Protestant youth groups was made ground for dismissal from school. Prosecution of farmers and other private business men for tax evasion and sabotage increased. In October the "Law for the Protection of the People's Property" was passed. 142/ This vague law provided stiff penalties for incorrect reporting in the nationalized economy and for failing to report an instance of planned or actual crime against the nationalized economy, as well as for the usual crimes of theft and embezzlement. Recruiting for the People's Police was stepped up, and restrictions on interzonal travel were increased. In January 1953 a law was passed forbidding East Germans to make any contact with representatives of Western governments and international organizations except through the Foreign Office. 143/ In January also the Central Committee of the SED recommended that the efficiency of the distribution system be improved by removing all capitalistic influence from wholesale trade and by expanding local retail cooperatives. 144/ Quotas for the delivery of meat animals, milk, and eggs were raised in January. 145/ In February 1953 the law on the "Safeguarding of Agricultural Production and the Supply of the People" was passed. 146/ This law provided that a farmer who, in the judgment of the Bezirk council, violated the law or did not operate his farm according to regulations could be dispossessed of his farm and that the farm could be turned over to the agricultural cooperatives. In March the income tax for private firms was increased. 147/ In April, ration cards were taken away from the self-employed and owners of private industry and trade. 148/

S-E-C-R-E-T

S-E-C-R-E-T

On 14 May the Central Committee of the SED called for a 10-percent increase in working norms, effective 1 June 1953. 149/

The introduction of these repressive and unpopular measures leading to more complete Sovietization coincided with a severe food shortage, brought on partly by a very poor harvest of root crops in 1952 but aggravated by greatly increased deliveries of foodstuffs to the state reserves and by the drive for collectivization. Beginning in the second half of 1952, the influx of refugees from East Germany into West Germany rose sharply, and it reached unprecedented proportions in the first half of 1953.* About 340,000 people fled to the West between June 1952 and July 1953. 150/

D. The "New Course."

On 9 June 1953 the Central Committee of the SED recommended a number of measures that amounted to an abrupt reversal of the repressive tactics of the previous year. The recommendations were accompanied by the admission that the government and Party decisions of the past year and the manner in which they had been enforced had been responsible for the mass exodus from East Germany. 151/ The measures recommended by the SED and subsequently adopted by the government included: (1) a reduction of the rate of investment in heavy industry and an increase in the production and distribution of consumers' goods; (2) some rehabilitation of the private sector of trade and industry; (3) some reduction of pressure on the private sector of agriculture, including repeal of the laws on "Safeguarding Agricultural Production and the Supply of the People" and "Devastated Agricultural Land," (4) nonretaliation against refugees returning from West Germany and the return of confiscated property; (5) easing of restrictions on travel between East and West Germany; (6) abandonment of the campaign against the churches and Protestant youth organizations and the release of arrested pastors; (7) amnesty for persons sentenced to 3 years or less for economic crimes; and (8) issuance of ration cards to all persons. No mention was made of repealing the increase in working norms. On 17 June, widespread rioting occurred throughout East Germany, beginning ostensibly as a protest against increased working norms. The riots were stopped by the intervention of Soviet troops and tanks.

* For a discussion of migration, see IV, E. below.

S-E-C-R-E-T

S-E-C-R-E-T

On 21 June 1953 the Central Committee of the SED recommended further concessions, including (1) repeal of the minimum 10-percent increase in working norms which had been ordered in May to take effect in June, (2) an increase in social security benefits and the reduction of contributions to former levels, (3) an increase of over DME 600 million in the value of housing construction and social facilities as compared with 1952, and (4) the abolition of electric power cuts for householders. 152/

In succeeding months, announcements of measures to improve the standard of living of the populace have increased in number and importance. The most important of these measures are (1) an increase in wage rates for the four lowest wage groups, and for doctors, dentists, and pharmacists; (2) a decrease in taxes on wages and on incomes from private business; (3) price reductions on over 12,000 consumers' goods; (4) reductions in compulsory deliveries of agricultural products; and (5) announcement of quantitative changes in the plan to decrease investments in heavy industry and to increase the production of consumers' goods. 153/

Nearly every member of the East German government who has spoken on the "new course" has quantified the value of the planned increase in real income. The latest estimate was by Foreign Minister Bolz, who said on 7 November that "the population had benefited to the extent of DME 3.4 billion in the second half of 1953." 154/ On 26 October, Grotewohl gave DME 3.8 billion as the value of measures taken under the "new course," but the period and the items covered were not specified. 155/ The most detailed and internally consistent account of the financial aspects of the "new course" was given by Grotewohl in a speech before the Volkskammer on 29 July 1953. 156/ It can be calculated from Grotewohl's figures that the increase in real income from wage increases and price and tax reductions is DME 1.4 billion. Late in October, prices and taxes were reduced further. In his October speech, Grotewohl gave figures of DME 540 million for the value of the latter price cuts and DME 450 million as the value of the tax cuts, but the period to which he referred is not clear. 157/ If these latter figures are on an annual basis, then for November-December DME 165 million more should be added to the planned increase in real income during the second half of 1953. This gives a total of DME 1,565 million as the added benefit to the population from wage increases and price and tax reductions. The average monthly wage bill originally planned for 1953 was probably something over DME 2.1 billion. 158/

S-E-C-R-E-T

S-E-C-R-E-T

The planned increase in retail turnover in the second half of 1953 is DME 5 billion over actual turnover during the first half. A part of this increase was originally planned as a normal seasonal increase. About DME 2.4 billion worth of goods, in pre-July prices, are to be available in the second half of 1953 in addition to those originally planned. According to Grotewohl, the sources of these goods are imports from the USSR and added production from domestic sources under the revised plans. 159/

Aggregative data on the value of increased imports from the USSR during the second half of 1953 are not available, but during July the number of freight cars bringing grain into East Germany from the USSR reportedly increased by 74 percent over the average for the previous 9 months. 160/ A phenomenal increase in the movement of refrigerator cars into East Germany from the USSR also was observed. Previously a monthly average of 100 to 150 loaded refrigerator cars entered East Germany from the USSR. In July this traffic of meat, fruits, and vegetables is reported to have increased to 1,256 carloads, an increase of over 700 percent. 161/ Refrigerator car traffic from Hungary, Rumania, and Bulgaria was reported at the normal rate. These countries did, however, make refrigerator cars available for food shipments into East Germany from the USSR.

A normal seasonal increase in supplies of food took place during July and August. Additional meat, fats, and textiles appeared on the market in July, apparently released from state reserves as announced by the government. Ration cards appear to have been fully honored since the beginning of the "new course." According to reports in East German newspapers, the elimination of electric power cuts to households has not been accomplished, but improvements in that direction are reported. 162/

It appears that in its initial stages the improvement in the scale of living promised under the "new course" is being implemented with imports from the USSR and from domestic reserves. The important question is whether or not East Germany can continue to improve the scale of living and pay off its foreign trade debt from its own resources. It seems that this is quite possible. The cessation of reparations deliveries and other uncompensated deliveries will free a minimum of 4.4 percent of GNP and 8.8 percent of industrial goods output for East German use in consumption or investment. In the recent past, reparations goods have been largely machinery and fine mechanical optical equipment. Not much of the capacity of the firms

S-E-C-R-E-T

formerly producing reparations goods can be used directly to increase the scale of living, but the goods formerly sent to the USSR as reparations presumably can now be exported. Excess capacity is also available in the consumers' goods industries of East Germany.*

The leaders of the SED have reiterated that the "new course" is not a retreat from socialism but is merely a better way of achieving it. They have stated that the general line of the Party was and remains correct. 163/ In this they have been consistent. None of the measures taken under the "new course" would reduce the level of socialization achieved by the summer of 1952, although a minor retreat from mid-1953 levels took place. The pace of investment in heavy industry has apparently slackened, and a real increase in the scale of living has taken place. In the long run, this policy should serve the USSR better than the harsh measures undertaken to build up socialism in the summer of 1952. There is evidence that the very speed of the investment program resulted in considerable waste of resources. A slowly rising scale of living should do much to allay unrest among the East German people and at least reduce active resistance. The USSR thus can continue to hold out the promise of German unity while consolidating its hold upon East Germany and particularly upon the minds of its youth.

II. Economic Development of East Germany.

A. Over-All Development.

East Germany, including East Berlin, had in 1945 approximately one-third of the total area, population, arable land, and industrial capacity of "Potsdam" Germany. 164/ Before the war the area now known as East Germany (the West Germans refer to it as "mittel Deutschland") "exported" to the rest of Germany about as much as it "imported" in value, sending out one type of agricultural product (grain, potatoes, and sugar) in return for another (dairy produce, meat, edible fats, and livestock) and exchanging such industrial commodities and raw materials as optics, precision instruments, textile and printing machinery, textiles, newsprint, and lignite against heavy machinery, bearings, rubber products, iron, and steel. 165/ Before the war, industry and agriculture each produced a slightly higher share of the regional GNP in East Germany than in

* The changes in the production and investment plans connected with the "new course" are discussed in II, below.

S-E-C-R-E-T

S-E-C-R-E-T

West Germany. 166/ In the prewar economy, when the relative roles of West and East German industries are compared, it can be said roughly that West Germany was the producer of basic materials and that East Germany contained predominantly the processing and finishing industries. 167/

The industrial composition of the East German economy is shown in Table 1. East Germany is the most industrialized country in the Soviet Bloc. The percentage of GNP produced in industry was larger in East Germany than in any other Bloc country, and the percentage produced in agriculture was the smallest. In the USSR the comparable percentages in 1952 were 40.5 percent in industry and 21.4 percent in agriculture.

Table 1

Percentage of Gross National Product of East Germany
by Sectors a/ 168/
1952

	Percent of GNP
Agriculture	13.0
Industry	49.9
Transport and Communications	5.8
Building	4.9
Services	13.0
Trade	13.3
Total	<u>100.0</u>

a. The product by industrial sectors was calculated from wage and employment data.

S-E-C-R-E-T

S-E-C-R-E-T

The GNP of East Germany in 1952 amounted to \$15.5 billion (1951 \$ US).^{*} Table 2^{**} shows the trend in the East German GNP. Recovery from the very low postwar level was rapid, especially after 1948, but the GNP in 1952 was still slightly below the 1938 level. Recent annual rates of increase were 19.5 percent in 1950, 14.6 percent in 1951, and 5.5 percent in 1952. The high rate of increase in 1950 was partly due to a sizable gain in agriculture that resulted from favorable weather conditions. In addition to this, the rapid growth of GNP prior to 1952 represents a recovery from the effects of the war and Soviet dismantlings. The rate of gain in 1952 is more nearly the rate that would be expected for the years 1952 to 1955. If the East German economy averages a 5-percent-per-year gain from 1952 to 1955, the GNP in 1955 will be about \$17.9 billion (1951 \$ US).

The "new course" is not likely to affect substantially the over-all growth of the economy over the next 2 years except insofar as it checks a deterioration of worker morale and productivity. Some gain in production can be expected from the fuller utilization of consumers' goods industries, where considerable excess capacity has existed. Primarily the "new course" will affect the composition of production rather than its over-all growth. Output of consumers' goods will grow more rapidly and producers' goods more slowly than heretofore.

B. Industry.

When the Kremlin stopped the removal of capital equipment in 1948, East German industrial capacity was less than 50 percent of the prewar level. ^{171/} In mid-1948 the SED announced the Plan for 1948 and the Two Year Plan for 1949-50. ^{172/} This was the first public mention of either an annual economic plan or a long-term

^{*} The dollar value of the GNP for 1952 was arrived at by moving forward an estimate of prewar GNP in dollars by the GNP indexes given in Table 1. The prewar dollar estimate was obtained from Colin Clark's estimate ^{169/} for prewar Germany. Ferdinand Grunig's estimate ^{170/} of West Germany's share in prewar Germany was subtracted and adjustments were made for other territorial changes. The prewar estimate was then inflated to 1951 dollars.

^{**} Table 2 follows on p. 33.

S-E-C-R-E-T

Table 2

Indexes of Production in East Germany
by Sectors, 1938, 1946-52

1950 = 100

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>
<u>Major Sectors</u>								
Industry	143	52	61	67	77	100	127	140
Producers' Goods	106	52	58	68	80	100	123	137
Consumers' Goods	189	52	64	59	75	100	133	144
Agriculture	114	69	66	85	85	100	103	101
Transportation	140	48	55	66	84	100	112	120
Communications	121	N.A.	N.A.	85	96	100	106	105
<u>GNP</u>	126	N.A.	N.A.	76	84	100	115	121
<u>Industry</u>								
<u>Energy</u>								
Electric Power	68	59	70	81	92	100	113	124
Solid Fuels	90	81	76	82	92	100	113	127
POL	28	39	58	66	83	100	126	144
<u>Metals</u>								
Nonferrous	150	N.A.	62	74	89	100	105	123
Ferrous	164	23	24	45	67	100	113	176
<u>Machinery and Equipment</u>								
Shipbuilding	38	N.A.	3	8	58	100	159	202
Bearings	N.A.	N.A.	N.A.	40	60	100	107	136
Automotive Equipment	N.A.	N.A.	N.A.	N.A.	N.A.	100	207	300
Electronic Equipment	N.A.	19	31	48	72	100	117	N.A.
Railway Equipment	N.A.	N.A.	N.A.	75	74	100	112	137
Machine Tools	195	N.A.	N.A.	48	57	100	125	138
Chemicals	78	39	58	70	83	100	117	125
Construction Materials	100	N.A.	50	52	79	100	105	111
Forestry Products	96	123	127	122	91	100	100	99
Food-Processing Industry	157	45	56	62	74	100	116	136
Light and Textile Industries	217	51	64	52	73	100	144	152

S-E-C-R-E-T

S-E-C-R-E-T

plan. The Two Year Plan declared that by 1950 industrial production was to reach 81 percent of 1936 and 135 percent of 1947. 173/ To facilitate this planned increase in production, the USSR reduced reparations deliveries somewhat and stopped dismantling altogether. It was announced in January 1950 that the Two Year Plan would be fulfilled in 18 months instead of 24. 174/ Industrial production in East Germany revived rapidly after 1948, though at a somewhat lower rate than in West Germany. On the basis of indexes compiled from ORR estimates of the physical production of a number of commodities, it is estimated that East German industrial production (1938 = 100) rose from 47 percent in 1948 to 70 percent in 1950 and 98 percent in 1952. 175/ West German indexes of industrial production for the same years were 52, 94, and 121 percent of 1938, respectively. 176/

Both parts of Germany had a currency reform in 1948, but there the similarity in bases of recovery ends. West Germany received large amounts of free food and raw materials from GARIOA* and Marshall Plan aid and gradually removed wartime and postwar restrictions on the economy. East Germany, however, continued to pay heavy reparations, which reduced the amount of goods available for export and correspondingly reduced the ability to import raw materials and industrial equipment. Restrictions on interzonal trade imposed by both the USSR and the Western Allies worked more to the disadvantage of East than West Germany. Moreover, poor planning by the East German authorities made for inefficient use of resources.

The indexes of industrial production compiled by ORR shown in Table 2 indicate approximately the same growth in over-all industrial production as that claimed by the East German authorities. For instance, ORR shows total industrial production in 1952 to have been 40 percent higher than in 1950 -- East German authorities claim an increase of 41.4 percent. 177/ This is an impressive achievement, particularly in view of the handicaps under which the economy has

* Government and Relief in Occupied Areas -- a part of the title of the US law appropriating funds to be used by the US Armed Forces for this purpose.

S-E-C-R-E-T

S-E-C-R-E-T

operated.* The ORR indexes also tend to bear out the East German claim that on an over-all basis the goals of the Five Year Plan have been fulfilled.

The East German Five Year Plan (1951-55) requires the gross value of industrial production (excluding handicrafts) to increase from DME 23.4 billion in 1950 to DME 45 billion in 1955, a total increase of 92.3 percent, or an average annual increase of 13.7 percent.** 179/ Explicit in the Plan are the following aims: (1) independence of East Germany from Western capitalistic countries for supplies of basic materials, (2) great expansion of basic and heavy machine industries, and (3) considerable reduction in the scope of private enterprise.

Over the 5-year period the original Plan allocated DME 28.6 billion to net investment, of which DME 5.8 billion were to be for residential and cultural buildings. 180/ This represents an average of DME 5.7 billion a year, on the average less than 15 percent of GNP. On the surface this would not appear to be an excessive rate of investment and might well be sufficient to provide the industrial basis for the planned increases in production. Nevertheless, the investment plan has not been announced as fulfilled in any of the first 10 quarters of the Five Year Plan, and a reduction in the rate of investment has been announced as a part of the "new course."

Four principal factors contributed to the failure of the investment plan: (1) the kind of investment attempted, (2) inadequate and incorrect planning, (3) reparations and other uncompensated deliveries, and (4) curbs on interzonal trade. Under the Five Year Plan, investment has been concentrated in a relatively few key projects in the basic materials industries and in the heavy machine building industry. Investment and even replacement has been neglected in other industries, including transportation. East Germany has relatively few technicians well trained for building an iron and

* In West Germany the increase in industrial production for the same period was only 28 percent. 178/ It must be borne in mind, however, that in 1950 the West German economy was at a more advanced stage of recovery than the East German economy.

** This is a lower rate of increase than implied by the planned rates of increase in the production of the nationalized firms and private firms (see p. 17, above). Such apparent inconsistencies are not uncommon in published East German accounts of both plans and achievement.

S-E-C-R-E-T

S-E-C-R-E-T

steel industry or a heavy machine construction industry. Consequently, many serious mistakes were made in plans, and the plans were never completed on time. Political considerations often interfered, with disastrous results. The premature firing of the first blast furnace at the Stalin Kombinat (formerly the Iron and Steel Combine East) is an example perhaps extreme in its results but typical in origin. In order to have the firing coincide with the anniversary of the October Revolution, the furnace was fired before the equipment had been adequately tested; the blowers broke down; and the charge solidified, causing great damage to the furnace. Reparations deliveries and some other forms of uncompensated deliveries had a greater adverse effect on the investment program than their total value in relation to GNP (about 5 to 8 percent, excluding occupation costs*) would indicate, because the bulk of reparations deliveries in recent years have been products of the machine industry, especially the heavy machine and electroengineering industries. Products of these industries were especially needed for the investment program. Similarly, the restrictions on interzonal trade deprived East Germany of iron and steel and equipment needed for the investment program.

Although the gross production plans were announced as fulfilled every year until the first quarter of 1953, in each year the nonfulfillment of production plans for a number of important products was announced. In 1952 these were bituminous coal and heavy machinery. 181/ In 1951, building materials, crude steel, rolling mill products from nonferrous metals, metallurgical equipment, and some chemicals were among the products whose production plans were not fulfilled. 182/ In the first and second quarters of 1953 the following products were among those whose production plans were not fulfilled: electric power, coal, copper ore, copper, power machine construction, steam turbines, revolving lathes, freight cars, trucks, electric generators, sulfuric acid, various textiles, and food products. 183/ The investment plan of the nationalized industry for the first quarter of 1953 was announced as being "by far not fulfilled," although a substantial increase over the preceding year was shown. 184/ The nonfulfillment of the investment plan meant that a great many projects were only partially completed, thus tying up materials and labor without achieving the planned increases in capacity. At the same time, the shortage of materials resulted in an underutilization of capacity in some industries.

* Based on a GNP estimate of about DME 41.6 billion in 1952 and the reparations estimates, I, A, above.

S-E-C-R-E-T

S-E-C-R-E-T

Leaders of the SED have emphasized that the changes in the production and investment plans under the "new course" are designed to eliminate "disproportions" in the economy and to bring the speed of "socialist construction" into line with existing economic capacities as well as to improve the scale of living. Ulbricht in a speech before the Central Committee of the SED on 19 September said: "The ministries and administrative authorities ... as well as the enterprises and various organizations of the GDR must be guided above all by the principle that existing capacities must be fully utilized so that investment funds may be used in particular for the expansion and reconstruction of enterprises actually in operation. This will make it possible to increase production at a lower cost and within a shorter time to the extent necessary to meet the requirements of the people and the economy." ^{185/} The announced changes in plans bear out this general statement of policy.

In discussing the revised plan for the second half of 1953, Bruno Leuschner, Chairman of the State Planning Commission, stated that the revised figures for total volume of gross production were not substantially different from those in the original plan. ^{186/} Grotewohl revealed that for the entire year the plan was to be changed, so that heavy industry would produce DME 1.4 billion less, while the light industries and foodstuffs industries would produce DME 950 million more. ^{187/} According to the resolution of the Central Committee of the SED, heavy industrial production in 1953 as compared with 1952 was to rise 5.5 to 6 percent instead of the originally planned 13 percent, and light industrial production was to increase by 10 percent instead of 7.1 percent. ^{188/}

According to Grotewohl, planned investments in 1953 had been reduced by DME 1.7 billion from the amount in the original plan. However, expenditures for housing, construction of highways, and social facilities were to be increased by DME 670 million, giving a net reduction of DME 1,030 billion. ^{189/} No firm figures are available on the original investment plan. The reported figures for total investment range all the way from DME 4.9 billion to DME 6.5 billion. ^{190/} If the higher figure is authentic, it probably contains planned investments for armaments and military construction, which are not shown in the official economic plan and which a private information bureau in Berlin reported to be DME 1.6 billion for the year mid-1952 through mid-1953. ^{191/} Since investments in light industry and in power and coal mining are not to be reduced, and since it is unlikely that the entire reduction could come out of

S-E-C-R-E-T

S-E-C-R-E-T

investment in heavy industry, which in Communist planning terminology includes replacements, it appears that a part of the reduction probably will take place in military investment, such as investments for armaments and military construction.

In 1953 and 1954, originally planned investment will be reduced by DME 2 billion each year. The reduction is to affect primarily the metallurgical, ore mining, and heavy machine construction industries, while investment in industries producing consumers' goods, power, and coal, as well as in the MTS's and the state-owned farms, is to be further expanded. 192/ Grotewohl stated that in 1954 retail turnover, measured in 1953 prices, would increase by DME 4.5 billion as compared with the revised plan for 1953. Taking into account the additive role of excise taxes and distributors' margins in retail price formation, it seems that this increase in turnover is quite possible, if investments are reduced as planned. Capacity for production of consumers' goods in light industry has not been fully utilized in the postwar period or has been partially diverted toward production of investment goods. The changes in the investment program for 1945-55 should make available additional materials for the expanded production of consumers' goods.

C. Agriculture.

In 1952, East German agricultural production as a whole was about 11 percent below the 1938 level.* Population, on the other hand, was about 10 percent greater than in 1939. 193/ (The increase in population came about primarily as a result of the transfer of population from the German territories east of the Oder-Neisse line.) 194/ East Germany had to feed, in addition to its own population, about 400,000 Soviet occupation troops. 195/ Before the war the area known as East Germany was, on balance, about self-sufficient in foodstuffs, exporting to Western Germany grains, potatoes, and sugar, and importing meats, fats, and dairy products. 196/

Among the major agricultural commodities, only the production of meat and vegetable oils had exceeded the 1935-39 average by 1952. The increase in meat production was achieved by abnormal slaughter of livestock in the face of shortages of feedstuffs caused by the

* Estimate based on indexes computed in CIA. Indexes derived from CIA estimates of agricultural production in physical quantities.

S-E-C-R-E-T

S-E-C-R-E-T

unfavorable crop conditions in 1952. East Germany had deficits, moreover, of both meat and vegetable oils before the war. As a result of generally lower postwar production in agriculture and higher requirements because of increased population, East Germany has found it necessary to import foodstuffs. These imports, which for the most part have come from within the Soviet Bloc, have not been sufficient to provide an adequate diet for the population.

In 1952, supplies of potatoes, sugar beets, and other sources of food for the population declined sharply. The harvest was poor because of unfavorable weather conditions and of disaffection among farmers caused by the drive for collectivization. Moreover, considerable quantities of foodstuffs were added to the State reserves.

The East German Five Year Plan calls for considerable increases in agricultural production (see Table 3).^{*} The goals of the Five Year Plan for agriculture can possibly be achieved in view of the prewar performance in this sector and in view of the expansion of yields in West German agriculture by amounts greater than those required by the East German Five Year Plan. 197/ Fulfillment of the Five Year Plan will depend primarily upon adequate supplies of fertilizers and upon achieving peace and stability in the agricultural community. The cessation of reparations deliveries should enable East Germany to obtain phosphatic fertilizers, and it should be possible to expand domestic production of potash and nitrogen fertilizers. The goals for animal products very probably will not be realized, because of the abnormal slaughter of livestock in 1953 following a shortfall in production of fodder in 1952. The number of swine declined by approximately 20 percent, and the population of other major kinds of livestock failed to increase. Although the present livestock population is close to prewar levels, the average weight of slaughter animals is considerably below prewar.

As part of the "new course," compulsory delivery quotas for agricultural commodities have been decreased, and several of the measures designed to drive farmers into cooperatives have been repealed. Independent farmers have been promised credits and some easement of obligations to pay back taxes. Nevertheless, the policy of collectivization has merely been slowed, not abandoned. The speech of Ulbricht before the Central Committee of the SED on 19 September 1953, in which he stated, among other things, that one reason for the difficulties in 1952 was that the political work of the MIS's was not good

^{*} Table 3 follows on p. 40.

S-E-C-R-E-T

S-E-C-R-E-T

Table 3

Production of Agricultural Commodities in East Germany
1952 and 1955 Plan 198/

	Thousand Metric Tons <u>a/</u>			
	Annual Average Postwar Peak	1952	1955 Plan	1955 Plan as Percent of Prewar
Crops				
Grain and Legumes	6,129 <u>b/</u>	5,647	7,313	111
Oil Seeds	182 <u>b/</u>	181	279	744
Potatoes	13,098 <u>c/</u>	10,162	17,507	129
Sugar Beets	5,880 <u>b/</u>	3,788	6,804	127
Animal Products				
Meat	619 <u>d/</u>	619	1,357	221
Milk	N.A.	N.A.	6,772	124
Eggs (1,000 Eggs)	N.A.	N.A.	1,980	153
Butter	71 <u>d/</u>	71	100	95
Slaughter Fats	124 <u>d/</u>	124	245	175

a. Unless otherwise indicated.

b. 1951.

c. 1950.

d. 1952.

enough, could hardly have been reassuring to the independent farmer. 199/
For the time being, however, the East German regime apparently intends to pacify the independent farmer. Although a measure of improvement in over-all agricultural production can be expected, the 1955 goals for leading plant and animal products very probably will not be met.

III. Foreign Economic Relations.A. Pattern of Trade.

East German foreign trade has shown constant and substantial gains since the reversal of the policy of dismantling German industry

S-E-C-R-E-T

S-E-C-R-E-T

in mid-1948. Soviet plans for East Germany suggest that its role in the economy of the Soviet Bloc is to be similar to its former role in the European economy, the role of a modern manufacturing economy. If these plans materialize, a continuation of the upward trend of exports and imports may be expected, and trade with the Bloc as a percentage of the total trade of East Germany is likely to increase over the long run.

As shown in Table 4, the world trade of East Germany increased severalfold over the period from 1948 to 1952. This increase was

Table 4
Foreign Trade of East Germany
1948-52

Current Prices			
	Total Trade	East-West Trade	
	(Thousand \$ US)	(Thousand \$ US)	Percent of Total
<u>Exports</u>			
1948	133,870 <u>200/</u> a/	48,419 <u>200/</u> a/	36.2
1949	299,227 <u>200/</u> a/	94,616 <u>200/</u> a/	31.6
1950	460,000 <u>201/</u>	183,041 <u>202/</u>	39.8
1951	714,800 <u>201/</u>	112,964 <u>202/</u>	15.8
1952	724,344	123,731 <u>202/</u>	17.1
1952 b/	724,344 <u>203/</u>	174,567 <u>204/</u> c/	24.1 <u>204/</u> c/
<u>Imports</u>			
1948	170,946 <u>200/</u> a/	63,358 <u>200/</u> a/	37.1
1949	314,576 <u>200/</u> a/	160,448 <u>200/</u> a/	51.0
1950	511,000 <u>201/</u>	154,624 <u>202/</u>	30.3
1951	557,500 <u>201/</u>	101,011 <u>202/</u>	18.1
1952	971,943	110,603 <u>202/</u>	11.4
1952 b/	971,943 <u>203/</u>	240,617 <u>203/</u>	24.8

a. Does not include interzonal trade with the French Zone of Germany.

b. The share of East-West trade in the total imports and exports in 1952 is higher when East German figures for the East-West trade are used than when US Department of Commerce totals based on official Western sources are used. See also Table 5, footnote c, p. 43, below.

c. Based on the results for January-September.

- 41 -

S-E-C-R-E-T

S-E-C-R-E-T

achieved despite the payment of a substantial portion of East German production to the USSR on reparations account, which account is excluded from the totals treated in this section.

For the period 1948-50, East German foreign trade statistics were originally calculated in dollars and then converted to marks at the official exchange rate (to August 1950, 1 RM/DME equals \$0.40 and after August 1950, 1 DME equals \$0.30). In recent years the same practice is reported to have been followed, except that the dollar figures are converted to rubles at the rate 1 ruble equals \$0.25. ^{205/} Therefore, these exchange rates are appropriate for converting the East German foreign trade figures as reported in marks or rubles to dollars, and the question of whether these rates adequately reflect the internal purchasing power of the mark or the ruble is beside the point in this connection.

1. East German Trade with the West.

East German trade with the West increased substantially during the period 1948-52. Western Europe accounted for the major portion of this East-West total (see Table 5).^{*} For the years 1948-49 and 1951-52, over 90 percent of East German exports to the West went to Western Europe, and over 98 percent of all imports from the West came from that area. ^{206/} Trade with North America came second, and the remainder of East German trade with the West was widely scattered. The largest part of this Western trade was with the nearby countries of northwestern Europe. West Germany, the Netherlands, Sweden, Norway, and Denmark accounted for about 86 percent of total exports to the West in 1951 and about 60 percent in 1952. As in the case of exports, neighboring countries of northwestern Europe dominated the import field and accounted for almost 90 percent of total imports into East Germany from the West in 1951 and 75 percent in 1952. Although exports were fairly evenly divided among the foregoing countries, West Germany was a more important source of imports, accounting for 38 percent in 1951 and 23 percent in 1952. The decline in trade with northwestern Europe in 1952 was largely replaced by an increase in trade with France and Finland.

The commodity composition of East German trade with the West underlines the East German emphasis on industrial development at

^{*} Table 5 follows on p. 43.

S-E-C-R-E-T

S-E-C-R-E-T

Table 5

Value of the Trade of East Germany with the West
by Countries, 1948-49 and 1951-52

Current Thousand \$ US											
Exports	Total	West Germany	Netherlands	Sweden	Norway	Denmark	Switzerland	Finland	Austria	France	Other Western European Countries Other Western Countries
1948 207/	23,519.0 a/	N.A.	8,318.2	813.0	2,961.5	2,052.6	3,465.4	413.4	687.5	42.2	4,125.6 639.6
1949 208/	38,795.8 a/	N.A.	9,126.9	4,175.2	1,132.8	7,140.2	5,915.8	1,342.4	1,791.6	423.6	5,922.0 1,825.3
1951 209/	112,964.0 b/	29,185.0	10,388.0	18,442.0	6,625.0	12,449.0	6,089.0	5,489.0	7,442.0	1,523.0	12,118.0 3,214.0
1952 210/ c/	123,731.0 b/	19,335.0	11,067.0	20,007.0	9,768.0	14,046.0	4,270.0	8,531.0	8,259.0	6,006.0	10,866.0 11,576.0
Imports											
1948 212/	31,857.7 a/	N.A.	8,459.7	1,064.7	2,109.1	1,535.9	1,489.2	132.2	5,066.6	16.6	11,697.9 285.8
1949 213/	100,287.6 a/	N.A.	24,220.4	6,802.0	3,838.4	7,423.6	4,064.0	1,436.0	2,708.0	254.4	47,493.2 2,047.6
1951 214/	101,011.0	35,291.0	13,025.0	12,238.0	6,292.0	16,596.0	5,189.0	1,797.0	4,114.0	348.0	6,046.0 75.0
1952 215/	110,603.0	35,016.0	14,057.0	16,273.0	7,329.0	12,479.0	7,960.0	2,908.0	5,648.0	2,916.0	4,630.0 1,387.0

a. Totals for 1948-49 do not include trade with the French Zone of Germany.

b. Countries not separately specifying East or West Germany not included.

c. The following breakdown of 1952 exports and imports (in current thousand \$ US) is taken from an official East German source. 211/ Some measure of the magnitude of illegal trade may be deduced from a comparison of these totals with those of Table 5, which were derived from official Western sources.

(1952)	Total	West Germany	Netherlands	Sweden	Norway	Denmark	Switzerland	Finland	Austria	France	Other Western European Countries Other Western Countries
Exports	174,567	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Imports	240,617	23,713	34,726	31,184	7,808	25,575	28,159	9,076	8,579	7,771	41,626 22,400

S-E-C-R-E-T

S-E-C-R-E-T

the expense of production of food and other consumers' goods. Table 6* presents the commodity composition of East German trade with the West for 1948, 1949, and 1951. Over 60 percent of East German exports to the West in 1951 consisted of industrial products, while almost 50 percent of East German imports were composed of food, beverages and tobacco, and fats and oils, with food alone comprising most of this amount.

Restrictions on trade with the West, whether designed to promote Soviet Bloc autarky or to conserve supplies of Western currency, appear to have been relaxed to some extent in late 1952 and 1953. Evidence to this effect rests chiefly on an increasing number of trade agreements with the free world and on the comparative volume of trade in 1952 and 1953. The agreements with Egypt in February of 1953 and with Argentina are cases in point. Comparative data on East German trade with Western countries, excluding West Germany, for the first 6 months of 1952 and 1953 are as follows:

	<u>January to June 1952</u>	<u>January to June 1953</u>
	<u>Current Thousand \$ US</u>	
Exports	51,817	69,325
Imports	44,009	48,968

At the beginning of 1953 it was estimated that East Germany owed West Germany DMW (Deutsche Mark West) 35 million to DMW 40 million. There were earnest efforts to reduce this balance in March, April, May, and June of 1953, but a reversal of this trend had resulted in an increase of the deficit by almost DMW 5 million on 1 September 1953.

2. East German Trade with Other Soviet Bloc Countries.

East German trade with the Soviet Bloc amounted to about 75 percent of the total foreign trade of the country for 1951-52. For the year 1952, total foreign trade turnover with the Satellites amounted to about \$1.3 billion. Both imports and exports were nearly

* Table 6 follows on p. 45.

S-E-C-R-E-T

S-E-C-R-E-T

Table 6

Commodity Composition of the Trade of East Germany with the West a/
1948, 1949, and 1951

Current Thousand \$ US

Exports	1948 <u>216/</u> b/	1949 <u>217/</u> b/	1951 <u>218/</u>
Food	5.4	2,551.6	4,387.0
Beverages and Tobacco	0.0	280.4	254.0
Raw Materials, Inedible	8,462.2	1,739.3	13,841.0
Mineral Fuels and Related Materials	638.4	95.2	19,489.0
Animal and Vegetable Oils and Fats	0.0	0.0	91.0
Chemicals	1,796.5	2,901.2	19,779.0
Manufactured Goods	5,908.1	14,433.6	13,693.0
Machinery and Transport Equipment	3,261.9	12,120.4	13,296.0
Miscellaneous Manufactured Articles	3,422.5	4,639.6	2,164.0
Miscellaneous Commodities and Transactions	23.6	34.5	14,409.0
Total	<u>23,519.0</u>	<u>38,795.8</u>	<u>101,403.0</u>
Imports	1948 <u>219/</u> b/	1949 <u>220/</u> b/	1951 <u>221/</u>
Food	2,154.8	14,463.2	42,366.0
Beverages and Tobacco	555.5	731.2	205.0
Raw Materials, Inedible	12,415.1	5,877.2	11,448.0
Mineral Fuels and Related Materials	2,819.9	3,515.2	5,862.0
Animal and Vegetable Oils and Fats	3.0	9,659.2	1,725.0
Chemicals	1,971.5	56,415.2	7,191.0
Manufactured Goods	11,347.5	7,272.0	14,487.0
Machinery and Transport Equipment	222.4	897.2	3,496.0
Miscellaneous Manufactured Articles	356.0	1,417.6	732.0
Miscellaneous Commodities and Transactions	12.0	39.6	7,073.0
Total	<u>31,857.7</u>	<u>100,287.6</u>	<u>94,585.0</u>

a. Table 6 cannot be reconciled with Table 5, because each is derived from a different compilation by the US Department of Commerce.

b. Totals for 1948-49 do not include West Germany.

S-E-C-R-E-T

S-E-C-R-E-T

seven times as great in 1952 as in 1948. The percentage increase in trade with the Bloc exceeded the percentage increase in trade with the West, and in dollar terms the increase was several times greater.

Table 7* shows the relative importance of Soviet Bloc countries in the trade of East Germany with the Bloc in the period 1948-52. The USSR accounted for about half of East German exports to the Bloc for the 5 years and was the source of a slightly larger proportion of imports. Poland ranked next, accounting for about one-fourth of the exports and imports of East Germany to the Bloc. Czechoslovakia, Hungary, Rumania, and Bulgaria followed in that order. Trade with Communist China, although relatively small, shows a marked increase from 1951 to 1952. 222/ Imports of Chinese foodstuffs became especially important in the last quarter of 1952.

A detailed year-by-year comparison of the commodity composition of the trade of East Germany with the other Soviet Bloc countries over the postwar period is made difficult by the lack of comparable statistics. Table 8** shows the composition of this trade for 1949. Exports in 1949 consisted chiefly of inedible raw materials, about 40 percent of the total; machinery and transport equipment, about 20 percent; and other manufactured goods, about 16 percent, with chemicals and miscellaneous other categories comprising the remainder. On the import side, manufactured goods, excluding machinery and transport equipment, accounted for about 46 percent of the total; mineral fuels and lubricants, about 20 percent; and inedible crude materials, about 13 percent, with food, machinery, and other lesser categories accounting for the remainder.

Beginning in 1950, exports and imports were classified by industry rather than by commodity groupings as in the earlier years. In 1952 the machinery construction industry contributed 38 percent of total East German exports to the Soviet Bloc countries; chemicals, about 20 percent; and electrical engineering products and precision equipment, about 21 percent. A complete breakdown of imports is not available, but large imports of food and agricultural and industrial raw materials suggest that East Germany is becoming increasingly dependent on Bloc sources of supply. 223/

* Table 7 follows on p. 47.

** Table 8 follows on p. 48.

S-E-C-R-E-T

S-E-C-R-E-T

Table 7

Distribution of the Trade of East Germany with Other Soviet Bloc Countries
1948-52

									Percent
<u>Exports</u>	<u>Total</u>	<u>USSR</u>	<u>Poland</u>	<u>Czechoslovakia</u>	<u>Hungary</u>	<u>Bulgaria</u>	<u>Rumania</u>	<u>Albania</u>	<u>China</u>
1948	100.0	48.4	39.7	9.9	1.7	0.2	0.1	0	0
1949	100.0	67.2	22.4	8.3	1.0	0.8	0.3	0	0
1950	100.0	55.5	28.5	11.0	2.9	1.2	0.9	0	0
1951	100.0	55.2	22.4	11.0	4.3	1.7	2.2	0.3	2.9
1952	100.0	51.5	19.2	10.0	7.2	1.9	3.4	0.4	6.4
<u>Imports</u>									
1948	100.0	56.8	31.5	11.1	0.1	0.5	0	0	0
1949	100.0	63.9	18.1	11.7	3.5	1.8	1.0	0	0
1950	100.0	54.5	24.4	11.8	6.9	1.4	1.0	0	0
1951	100.0	55.1	23.3	8.6	3.8	2.7	2.2	0	4.3
1952	100.0	52.8	18.9	8.0	7.1	1.9	3.7	0.4	7.2

S-E-C-R-E-T

Table 8

Commodity Composition of the Trade of East Germany with Other Soviet Bloc Countries
1949

Current Thousand \$ US

<u>Exports 224/</u>	<u>Total</u>	<u>USSR</u>	<u>Poland</u>	<u>Czecho- slovakia</u>	<u>Hungary</u>	<u>Bulgaria</u>	<u>Rumania</u>	<u>Albania</u>	<u>China</u>
Food	11,592	11,158	431	3	0	0	0	0	0
Beverages and Tobacco	1,211	1,211	0	0	0	0	0	0	0
Raw Materials, Inedible	84,889	44,469	32,142	7,765	507	0	6	0	0
Mineral Fuels, Lubricants, and Related Materials	17,932	14,924	2,681	327	0	0	0	0	0
Animal and Vegetable Oils and Fats	0	0	0	0	0	0	0	0	0
Chemicals	13,516	7,843	2,271	2,727	270	388	17	0	0
Manufactured Goods	25,175	19,800	3,170	1,527	215	329	134	0	0
Machinery and Transport Equipment	42,785	34,941	3,316	2,525	1,035	734	234	0	0
Miscellaneous Manufactured Goods	7,511	3,170	1,866	2,079	73	226	97	0	0
Miscellaneous Commodities and Transactions	0	0	0	0	0	0	0	0	0
Total	204,611	137,516	45,877	16,953	2,100	1,677	488	0	0
<u>Imports 225/</u>									
Food	11,088	676	1,708	1,016	3,926	2,379	1,383	0	0
Beverages and Tobacco	1,300	824	0	0	476	0	0	0	0
Raw Materials, Inedible	19,318	16,401	1,614	712	238	270	83	0	0
Mineral Fuels, Lubricants, and Related Materials	31,959	2,216	18,975	10,122	646	0	0	0	0
Animal and Vegetable Oils and Fats	6,747	6,747	0	0	0	0	0	0	0
Chemicals	3,297	2,015	626	481	127	48	0	0	0
Manufactured Goods	69,884	61,315	4,974	3,581	0	14	0	0	0
Machinery and Transport Equipment	10,100	8,067	0	1,993	40	0	0	0	0
Miscellaneous Manufactured Articles	435	292	0	143	0	0	0	0	0
Miscellaneous Commodities and Transactions	0	0	0	0	0	0	0	0	0
Total	154,128	98,553	27,897	18,048	5,453	2,711	1,466	0	0

S-E-C-R-E-T

S-E-C-R-E-T

B. Role of East Germany in the Soviet Bloc Economy.

As long as East Germany remains under Soviet control, its total production must be considered in estimating the economic capability of the Soviet Bloc for particular courses of action.* In terms of GNP, East Germany in 1952 represented about 8 percent of the Bloc total, or about 14 percent of the GNP of the USSR. Among the European Satellites, East Germany comes first in size of GNP, ranking slightly ahead of Poland. 226/ The pattern of specialization of the East German economy in the Bloc may be appraised in the light of the commodity composition of the trade of the country with other members of the Bloc.** In brief, East Germany as an advanced industrial area is an important supplier of machinery, chemicals, electrical engineering products, and precision equipment and in return receives primarily agricultural and industrial raw materials, food, mineral fuels, lubricants, and certain manufactured products.

East Germany has been supplying to the USSR an estimated one-fourth to one-half of the uranium available to the Soviet atomic energy program. This is considerably more than is produced by all the other Satellites combined. The rate of production in East Germany is being maintained by deeper mining and by increasing the exploitation of very low-grade ores at a greatly increased cost in capital investment and operating expenses. Significant changes in this production rate are not expected to occur by 1955. 227/

The advanced industrial character of East Germany and certain specializations imposed by its small area are shown by an examination of its array of basic raw materials and intermediate and final products, in relation to the production of the Soviet Bloc*** as a whole and the USSR in particular. As may be seen from Appendix A, Table 10,**** East Germany is not an especially important producer of ferrous metals, being limited in this respect by lack of high-grade ores and coking coal. In nonferrous metals, East Germany contributes 39 percent of secondary copper and almost 10 percent of refined lead.

* For a discussion of Soviet takings from East Germany in the form of reparations and other uncompensated deliveries, see I, A, and I, C, above.

** See A, above.

*** Including Communist China.

**** See this table (p. 61, below) for production in physical or value units and for comparable totals for the Soviet Bloc and the USSR.

S-E-C-R-E-T

S-E-C-R-E-T

Although completely lacking in crude petroleum production, East Germany has an important synthetic liquid fuel industry which accounts for about two-thirds of the total output of the Bloc. This represents, however, only a little more than 2 percent of the combined output of the Bloc of natural and synthetic petroleum products. East Germany is a particularly important producer of chemicals, accounting for the following approximate percentages of total Bloc production: ammonia, 29; nitric acid, 17; chlorine, 37; calcium carbide, 55; caustic soda, 29; refined phenol, 59; and synthetic rubber, 22.

Among agricultural products and fibers, sugar and rayon are important contributions of East Germany to the production of the Soviet Bloc, representing, respectively, about 11 percent and 53 percent of the Bloc totals. On the other hand, the country is deficient in grains, vegetable oils, and natural fibers.

East Germany is an important producer in the Soviet Bloc of certain types of industrial products, especially machine tools, which account for 16 percent of the Bloc total, and certain types of electrical equipment, particularly turbines and transformers, which account for 16 to 18 percent of the Bloc total.

This enumeration of leading commodities produced by East Germany as a percentage of the Soviet Bloc total should be supplemented by other items in the production of which East Germany does not rank so favorably. For this purpose, see the more complete list in Appendix A, Table 10.* Taking all economic factors into consideration, however, it is clear that East Germany represents a rich prize among the Satellites for economic reasons alone. If the Soviet cancelation of reparations and suspension of other uncompensated deliveries are not replaced by new exactions, the Soviet economic benefit from this area will be smaller than in the past and will be measured by the advantages derived from trade. If, however, Soviet control over East Germany remains secure, the resources and production of this area must be counted among the elements constituting Soviet capabilities for hot or cold war.

* P. 61, below.

S-E-C-R-E-T

S-E-C-R-E-T

IV. Labor and Population.

A. State Control over Labor.

In the administration of labor policy, as well as in other aspects of the centrally planned economy, the East German government tries to assume the appearance of democratic procedures. Actually it relies essentially on government regulations which may impose direct restraints on the factors of production or indirectly influence their allocation through the market mechanism by means of government-controlled prices and wages. To achieve the appearance of democracy, it is pretended that governmental measures are taken only in response to popular demand as voiced by democratically operated organizations. The numerous public, quasipublic, and private agencies which seemingly participate on an equal footing in the conduct of public business are in fact puppets, responding to the instructions of a relatively small inner circle of the government. Since these so-called mass organizations are under the leadership of the same small group that runs the government, it is possible to evoke the appearance of popular enthusiasm for particular governmental measures and to have these measures appear to be demanded by the public.

Public policy in the field of labor is administered chiefly by the Ministry of Labor. Other economic ministries, however, especially those directly concerned with production, and local agencies participate in the implementation and control of labor policy. Measures taken by the various organizations are coordinated in the over-all economic plan which establishes the objectives for the economy as a whole and for the principal sectors. The Ministry of Labor exercises jurisdiction in general labor matters and collaborates with the other economic ministries in the execution of manpower plans. If necessary, the Ministry of Labor may issue mandatory directives for carrying out government-approved plans for the allocation of labor to projects of special economic significance. The Ministry, through its departments and local agencies, is primarily concerned with procurement of labor for basic industries and important enterprises, research on manpower requirements and supply, attempts to increase the percentage of women in the working force, supervision of labor reserves and juvenile workers, promotion of the activist movement and socialist competition, formulation of wage policy, development and introduction of wage group classifications and technical work norms, drafting of new social legislation, and labor statistics.

S-E-C-R-E-T

S-E-C-R-E-T

The executive organs of the local governments are subordinated to the ministries of the central government in carrying out labor policies. These agencies replace the traditional labor exchange offices, which were dissolved. In addition to certain functions in confirming and supervising collective wage "agreements," the local agencies have the following duties: to utilize the local labor reserves, to organize the allocation of workers among the various establishments and administrative districts of the country, to assist nationalized enterprises in the recruitment of labor, and to maintain registers of employed and unemployed workers. Managements of local enterprises are required to report at frequent intervals the number of workers employed, new additions, and workers discharged, giving details for changes of status of individual workers. In carrying out the allocation of workers to particularly important establishments, the local agencies may issue compulsory work assignments.

The government utilizes the training facilities of the educational system in planning the supply of labor to meet the requirements of economic plans. Vocational training receives great emphasis. The production ministries arrange for apprentice training and factory vocational schools.

Free unionism of the Western type does not exist in East Germany today. The Labor Code asserts: "In our new democratic order in which the key enterprises belong to the state, the right of wage and salary earners -- the decisive power in the state -- to participate in the determination of the conduct of the economy is realized through the organs of the democratic state." 228/ Accordingly, the unions cannot strike against state-owned enterprises, and they have been deprived of the right to negotiate the basic conditions of employment and of other rights which under traditional Western and German thought are considered part of the freedom to organize. Only one union organization is allowed to exist -- the Federation of Free German Unions -- which is composed of 20 affiliated unions with a total membership of more than 5 million persons. Its primary function is to carry out the policies of the government and the SED rather than to represent the specific interests of workers with respect to management or even the government. Performance of this duty is secured by placing reliable Communists in the leading positions in the unions and in the government. The most important functions of the unions in the nationalized enterprises are to promote increased productivity at lowest possible costs, to organize "cultural programs" for indoctrinating labor with the Communist ideology, and to administer the social insurance system. At most, the role of

- 52 -

S-E-C-R-E-T

S-E-C-R-E-T

unions in the management of the publicly owned sector is advisory, and though the trade-union shop representative may use his participation in "People's Control" to complain about irregularities, action on complaints will occur only with the consent of the public administration, the Party leadership, and the top command of the union. The latter, however, are unified through the device of identical, Communist leadership, and action will be taken only when it is expedient in the view of this leadership.

Administration of the social insurance system by the Federation of Free German Unions has increased the strong pressure on workers to become and remain members of the unions. This again brings out the quasigovernmental character of the union organization. Union officials, instead of working for changes in policies considered undesirable by workers, are obliged to help in the enforcement of such policies. For this reason, most of the important union activities are in practice initiated and carried out by the executives of the Federation rather than by the member unions. One of the aims of the regime is to indoctrinate the youth of the country and re-educate adults to accept the new concept of the union as an executor of public policies. At present, opposition to this concept is still strong.

In the declining private sector of the economy, unions are expected to safeguard the interests of workers and to promote the conversion of private enterprise to socialist forms. Apart from the enforcement of the "right to codetermine" business policies in private enterprises, the Federation of Free German Unions points out that the tasks of the unions should include checking of tax payments, control of price policy, and supervision of the performance of contracts with publicly owned enterprises. But lower union officials and members, instead of supporting the policy of the Federation, have, not infrequently, helped private employers to ward off the breakdown of their business. In such instances, union officials have followed the policy of demanding concessions on the basis of the employer's ability to finance them out of profits after taxes without endangering the existence of the firm. As a result, employees in the private sector sometimes have been more favorably paid than in the public sector and sometimes less so. Federation leadership has criticized this as a violation of the principle of equal pay for equal work and has urged that skilled workers in the private sector should not be paid more than those in the public sector, since their skills are necessary for "building socialism." At the same time, it is strongly

- 53 -

S-E-C-R-E-T

S-E-C-R-E-T

urged that wages in the lower categories should be raised in the private sector. Beyond that, Federation leadership has demanded that any remnants of class harmony between workers and private employers should be extirpated.

B. Manpower and Labor Planning.

The current Five Year Plan 229/ sets the goal for employment in the national economy at 7.1 million persons by 1955: that is, 13 percent above the 1950 level, or a gain of about 800,000 workers. Of the total, 2.77 million are to be women, and 4.33 million are to be men. The plan also provides for a 60-percent increase in labor productivity during the same period. In view of the available pool of manpower, the Plan does not appear unfeasible quantitatively. The requirements for highly skilled labor, however, may be difficult to meet.

As a means of achieving the planned expansion of the dependent* labor force, the plan envisions an increase in the proportion of employed women, improvement of vocational training and schooling, and location of new plants in the less industrialized regions. To these measures should be added the transfer of self-employed persons to hired status and the absorption of the unemployed. In mid-1950 there were probably about 260,000 unemployed in East Germany, 230/ and early in 1952 official unemployment probably still exceeded 200,000. This number does not include individuals who have refused to accept jobs offered to them and who are therefore not officially recognized as unemployed. The total employment rose about 300,000 from 1950 to 1952. 231/ Since in February 1952 about 10.6 million persons were registered under the regulation requiring all persons between the ages of 14 and 65 and able to work to register, it appears that the manpower pool is great enough to meet the planned expansion of employment. Difficulties may be experienced in getting women to leave household duties in favor of other employment, in curtailing the flight of people to West Germany, and in transferring the self-employed to a hired status by the liquidation of private enterprises, but, given the powers available to the government, it appears that the employment goal is not unattainable. Evidence of the scarcity of qualified engineers, technicians, and other specialists is found in the current emphasis on the creation of new training facilities and on efforts to halt defections of these specially skilled personnel by raising wages and salaries, 232/ by improving the professional and

* Wage and salary workers as distinct from self-employed.

S-E-C-R-E-T

S-E-C-R-E-T

social position of the "technical intelligentsia," and in the comprehensive program to recruit West German scientists and other specialists. ^{233/} In view of the relatively high proportion of skilled and professional manpower in prewar Germany, the present scarcity probably is caused by defection to the West and perhaps also by Soviet recruitment for service in the USSR.

C. Labor Force and Population.

As a result of the influx of refugees and expellees from the east and the return of prisoners of war, the population of East Germany, including East Berlin, increased between 1946 and 1949 from about 18.5 million to 19.1 million, but it has declined since then to the 1946 level and has remained at about that level to the present time. ^{234/} The principal factor in the decline has been the flight of refugees to West Germany.

Persons gainfully employed in East Germany on 1 February 1952 totaled 7,855,000, of whom 1.5 million were nonagricultural self-employed, including family helpers. The distribution of the remainder and the goals for 1955 are shown in Table 9.* ^{235/} These figures show the dominant role of nonagricultural employment in 1952 and the relative, but not absolute, decline scheduled for agriculture by the end of 1955.

D. Incentives and Other Devices to Increase Output.

The East German government, through the public enterprises, employs the majority of the wage and salary workers in the country. The government uses three basic types of methods to increase output per worker: economic incentives, ideological indoctrination, and coercive and penal measures. The techniques employed under each method are constantly refined, and the pressures intensified. Economic incentives are applied by the use of differential wages for the various job classifications and by piecework rates and premiums on the quantity and quality of work produced. Individual and group incentives are designed to increase output per worker and per production team.

In establishing norms of output, there is a strong tendency to use the results achieved by outstanding employees and to set the

* Table 9 follows on p. 56.

S-E-C-R-E-T

Table 9

Employment in East Germany by Sectors
1952 and 1955 Plan

Branch	1952			1955 Plan		
	Male	Female	Total	Male	Female	Total
Industry	1,525,000	928,000	2,453,000	1,685,000	1,185,000	2,870,000
Building Trades	211,000	143,000	354,000	245,000	180,000	425,000
Agriculture and Forestry	1,106,000	1,018,000	2,124,000	1,200,000	1,100,000	2,300,000
Transportation	431,000	104,000	535,000	450,000	130,000	580,000
Public and Private Service Employees	714,000	175,000	889,000	750,000	175,000	925,000
Total	<u>3,987,000</u>	<u>2,368,000</u>	<u>6,355,000</u>	<u>4,330,000</u>	<u>2,770,000</u>	<u>7,100,000</u>

norm considerably above the statistical average attained by a given group of workers. Ideological propaganda seeks to convince the workers that such procedures are necessary to increase the welfare of the country. Because of large allocations of the increment of national product to investment and other nonconsumption uses, however, the enthusiasm of the workers for constant upward revision of norms with wages fairly constant has failed to come up to the planners' expectations. Indeed, the attempt to raise norms has met with growing resentment on the part of the workers. Following the decision of the Council of Ministers on 28 May 1953 that all norms must be raised again at least 10 percent by 30 June 1953, without provision for commensurate increase in wage rates, there were demonstrations in mid-June, first by construction workers in Berlin and subsequently by workers in other centers, which grew into broad protests against the oppression of the Communist regime. These events forced the government to repeal officially the decision of 28 May and to decree that wage calculations in the socialized sector, as of 1 June 1953, should be based on the working norms valid on 1 April 1953. Although the government thus found it expedient to modify its immediate objectives, it has not forsaken the ultimate goal. The Politburo of the

S-E-C-R-E-T

S-E-C-R-E-T

SED on 16 June 1953 repeated the arguments in favor of raising work norms and declared that the 10-percent increase should be carried through not by order of the ministries concerned but "solely on the basis of persuasion and voluntary decision." This, however, is not a fundamental change in policy, as the government has always been careful to maintain the impression that its decisions are motivated by the demands of the workers.

In the application of economic incentives, the government has sought to direct workers to priority sectors of the economy by offering higher average wages in these areas. In order to cause workers to increase their skills, it has introduced classifications of jobs by difficulty and by necessary skills, with corresponding wage differences. Extraordinary merit and achievement are rewarded by prizes and honorary titles, and longevity in service is recognized by premiums. As a complement to the financial incentives, the East German policy makers have pursued a program of ideological propaganda to win the support of workers for economic objectives of the regime. The principal devices used in this endeavor are "cultural programs," socialist competitions, and the activist movement, although the latter contains financial incentives as well. It corresponds to the Soviet Stakhanovite program. Meritorious group performance is rewarded by expenditures for collective benefit from the "Director's Fund," which is based on profits of the enterprise.

Although it is impossible to trace separately the effects of the various incentives employed in increasing productivity, the presence of an assortment of penal provisions for violations of labor discipline and the provision for compulsory assignment of individuals to particularly important segments of activity indicate that the incentive schemes in themselves have not sufficed to reach the objectives set in plans. The continued migration from East Germany to West Germany is further evidence of the inadequacy of economic incentives.

E. Migration.

After the first flare-up of defection at the beginning of the postwar period, the number of refugees from East to West Germany declined steadily until mid-1952. In the second half of 1952 it began to increase again, and in the first half of 1953 it reached unprecedented proportions. Beginning in June 1953, the influx of refugees from East Germany dropped sharply to reach a low of less

S-E-C-R-E-T

S-E-C-R-E-T

than half the rate which prevailed earlier in the year. In recent weeks the number of refugees arriving in West Berlin and other reception centers has again begun to increase. Details of the East-West migration are shown in Appendix A, Tables 10* and 11**.

There is no reason to assume that the large drop in defections has been entirely, or even chiefly, caused by the introduction of the "new course." Although a number of persons may have given up or postponed defection because of hope for improvement of their lot under the "new course," it is probable that more people have been prevented from fleeing by more effective border controls.

F. Scale of Living.

Analysis of the trend in the scale of living in East Germany from price-wage statistics is complicated by the presence of coupon rationing and a two-price system of rationing under which scarce goods are sold for very high prices in state-owned stores called HO's. The basic needs of the low-income sectors of the population can theoretically be met by the private retailers and consumers' cooperatives, which must sell at controlled prices. During the past 3 years the prices in HO stores have been lowered a number of times, and controlled prices have been raised, with a resultant lowering of the gap between the two, but the gap is still considerable. The scale of living in East Germany rose gradually from very low postwar levels up to 1952, when per capita consumption is estimated to be still substantially below the prewar level.

Poor agricultural harvests in 1951 and 1952 sharply reduced the availability of food supplies in the 1952-53 food year. Following the announcement of the "new course" in June, the situation was relieved in part by drawing on state reserves and by supplemental food imports from the USSR. ^{236/} The average daily caloric intake per capita in East Germany stood at 2,612 in the period from 1933 to 1937, 2,081 in the food year 1951-52,^{***} and 1,917 in 1952-53, ^{237/} or, in percentages, 1952-53 was about 73 percent of prewar and 92 percent of 1951-52. Reduced availabilities of milk, cheese, eggs,

* P. 61, below.

** P. 65, below.

*** The food year extends from 1 July to the following 30 June.

S-E-C-R-E-T

S-E-C-R-E-T

vegetables, and legumes probably account for a lesser percentage of total calories consumed in postwar than in prewar years.

The consumption of manufactured consumers' goods presents a more difficult problem for analysis than food alone. Per capita production of a representative sample of manufactured consumers' goods, which includes an estimate of manufactured food items, indicates that East Germany has been able to attain a postwar high of about 70 percent of the prewar level in 1953.* 238/ Although the present area produced a surplus of consumers' goods end items prior to the war, it is thought that present levels of production fall well short of local requirements. Ample evidence indicates that shortages of consumers' goods are very real to the residents of East Germany.

Under the "new course" the output of agricultural and light industrial products has received more favorable attention than in the past. Increased imports of manufactured consumers' goods and food items will depend upon the availability of export commodities. With the apparent relief from the burden of reparations and other uncompensated deliveries to the USSR, it would appear that East Germany has a favorable opportunity for increasing the scale of living. This, however, will depend on the possibility of new forms of Soviet exactions and the sincerity of the local regime in its declared intention of improving the lot of the people.

* Based on 1953 production estimates made early in the year.

S-E-C-R-E-T

S-E-C-R-E-T

APPENDIX A

TABLES

Table 10

Production of Selected Commodities in East Germany, the USSR,
and the Soviet Bloc a/*
1952

Commodity	1952 <u>239</u> / Total Bloc (Thousand mt) <u>b</u> /	1952 <u>240</u> / USSR (Thousand mt) <u>b</u> /	1952 <u>241</u> / East Germany (Thousand mt) <u>b</u> /	East Germany as Percent of Total Bloc	East Germany as Percent of USSR
Ferrous Metals					
Iron Ore (50% Fe)	62,783.0	55,000.0	330.0	0.5	0.6
Pig Iron	31,979.0	25,100.0	654.0	2.0	2.6
Raw Steel	43,917.5	34,300.0	1,800.0	4.1	5.2
Metallurgical Coke	45,288.0	33,000.0	265.0	0.6	0.8
Rolled Steel	32,317.0	25,100.0	1,362.0	4.2	5.4
Manganese Ore	4,547.6	4,200.0	20.0	0.4	0.5
Chromite (mt)	750,700.0	650,000.0	0	0	0
Nonferrous Metals					
Primary Copper	303.2	287.0	10.4	3.4	3.6
Secondary Copper	70.0	39.0	27.0	38.6	69.2
Refined Lead	197.7	117.0	19.0	9.6	16.2
Refined Zinc	267.0	130.0	N.A.	N.A.	0
Antimony	14.5	3.0	0	0	0
Bauxite	1,865.0	625.0	0	0	0
Primary Aluminum	251.2	220.0	9.2	3.7	4.2
Secondary Aluminum	81.5	72.5	7.0	8.6	9.7
Fluorspar	198.0	160.0	38.0	19.2	23.8
Petroleum					
Crude Petroleum	55,576.0	44,000.0	0	0	0
Liquid Fuels (from Synthetics and Shale Oils)	1,807.0	300.0	1,203.0	66.6	401.0
Natural and Synthetic Petro- leum Products	53,300.0	41,580.0	1,300.0	2.4	3.1
Natural Gas (million cu m)	9,840.0	5,500.0	0	0	0

* Footnotes for Table 10 follow on p. 64.

- 61 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 10

Production of Selected Commodities in East Germany, the USSR,
and the Soviet Bloc a/
1952
(Continued)

Commodity	1952 <u>239/</u> Total Bloc (Thousand mt) <u>b/</u>	1952 <u>240/</u> USSR (Thousand mt) <u>b/</u>	1952 <u>241/</u> East Germany (Thousand mt) <u>b/</u>	East Germany as Percent of Total Bloc	East Germany as Percent of USSR
Chemicals					
Ammonia (Synthesis)	972.0	590.0	280.0	28.8	47.5
Nitric Acid (100 Percent)	1,686.5	1,172.0	246.1	16.6	21.0
Sulfuric Acid	4,619.0	3,627.0	362.0	7.8	10.0
Toluol	67.4	56.0	3.9	5.8	7.0
Chlorine	529.0	261.0	198.0	37.4	75.9
Calcium Carbide	1,256.1	300.0	690.4	55.0	230.1
Caustic Soda	722.9	333.0	208.9	28.9	92.8
Crude Benzol	412.1	305.0	19.1	4.6	6.3
Refined Benzol	359.3	223.0	10.3	2.9	4.6
Refined Phenol	15.5	10.6	9.2	59.4	86.8
Synthetic Rubber	253.6	187.0	56.3	22.2	30.1
Reclaimed Rubber	70.5	55.0	2.5	3.5	4.5
Rubber Tires (thousand units)	12.84	10.0	0.8	6.2	8.0
Agricultural Products					
Bread Grains (million mt)	103.71	61.29	3.3	3.2	5.4
Other Grains (million mt)	48.18	29.91	2.2	4.6	7.4
Potatoes	148,506.6	8,880.0	10,162.0	6.8	12.9
Sugar	4,568.4	2,267.0	511.0	11.2	22.5
Meat	9,930.0	3,485.0	619.0	6.2	17.8
Animal Fats	2,409.0	851.0	195.0	8.1	22.9
Vegetable Oils	2,809.7	885.0	52.3	1.9	5.9
Wool (Grease Base)	235.31	150.9	3.7	1.6	2.5
Rayon	184.0	41.2	97.5	53.0	236.7

S-E-C-R-E-T

S-E-C-R-E-T

Table 10

Production of Selected Commodities in East Germany, the USSR,
and the Soviet Bloc a/
1952
(Continued)

Commodity	1952 <u>239/</u> Total Bloc (Thousand mt) <u>b/</u>	1952 <u>240/</u> USSR (Thousand mt) <u>b/</u>	1952 <u>241/</u> East Germany (Thousand mt) <u>b/</u>	East Germany as Percent of Total Bloc	East Germany as Percent of USSR
Coal					
Anthracite and Bituminous	372,695.0	220,500.0	2,850.0	0.8	1.3
Lignite	325,404.0	85,500.0	178,080.0	54.7	46.3
Heavy Industrial Products					
Antifriction Bearings (million units)	131.3	115.0	6.8	5.2	5.9
Tractors (thousand units)	133.3	121.0	7.2	5.4	6.0
Trucks (thousand units)	429.3	410.0	7.3	1.7	1.8
Passenger Cars (thousand units)	76.9	35.0	16.4	21.3	46.9
Steam Locomotives (units)	3,392.0	2,250.0	0	0	0
Electric Locomotives (units)	341.0	280.0	61.0	17.9	21.8
Freight Cars (equivalent 2- axle units)	188,400.0	137,500.0	6,000.0	3.2	4.4
Railroad Passenger Cars (units)	4,380.0	2,800.0	620.0	14.2	22.1
Machine Tools (units)	138,590.0	80,340.0	22,000.0	15.9	27.4
Construction Materials					
Flat Glass (million sq m)	119.0	90.0	15.5	13.0	17.2
Gypsum	2,438.0	1,900.0	455.0	18.7	23.9

S-E-C-R-E-T

S-E-C-R-E-T

Table 10

Production of Selected Commodities in East Germany, the USSR,
and the Soviet Bloc a/
1952
(Continued)

Commodity	1952 <u>239/</u> Total Bloc (Thousand mt) b/	1952 <u>240/</u> USSR (Thousand mt) b/	1952 <u>241/</u> East Germany (Thousand mt) b/	East Germany as Percent of Total Bloc	East Germany as Percent of USSR
Construction Materials (Continued)					
Unglazed Bricks (million units)	21,300.0	15,990.0	1,680.0	7.9	10.5
Cement (Hydraulic)	19,150.0	14,500.0	1,620.0	8.5	11.2
Electric Power (million kwh)	179,634.0	117,000.0	23,400.0	13.0	20.0
Electric Equip- ment c/					
Turbines (thousand kw)	5,085.0	3,600.0	1,809.0	18.1	30.0
Transformers (thousand kilo- volt amperes)	9,989.0	6,029.0	19,500.0	16.1	27.8
Wire and Cable (mt of copper)	121,360.0	70,060.0	445.0	7.5	10.5

a. The Soviet Bloc includes the USSR, the European Satellites, and Communist China.

b. Unless otherwise indicated.

c. Range of error, plus or minus 20 percent.

S-E-C-R-E-T

S-E-C-R-E-T

Table 11

Migration a/* between West Germany and East Germany, between West Berlin and East Germany,
and between West Berlin and East Berlin, by Time Period 242/
1948-52

Time Period	Number of Persons Migrating			Number of Persons Migrating			Number of Persons Migrating		
	Net Migration To West Germany From East Germany	To West Germany From East Germany	From West Germany To East Germany	Net Migration To West Berlin From East Germany	To West Berlin From East Germany	From West Berlin To East Germany	Net Migration To West Berlin From East Berlin	To West Berlin From East Berlin	From West Berlin To East Berlin
1948									
March	N.A.	N.A.	N.A.	1,351	2,539	1,188	N.A.	N.A.	N.A.
2d Quarter	N.A.	N.A.	N.A.	6,011	9,829	3,818	N.A.	N.A.	N.A.
3d Quarter	N.A.	N.A.	N.A.	3,751	7,264	3,513	N.A.	N.A.	N.A.
4th Quarter	N.A.	N.A.	N.A.	5,359	8,329	2,970	N.A.	N.A.	N.A.
Total (March- December)	N.A.	N.A.	N.A.	16,472	27,961	11,489	N.A.	N.A.	N.A.
1949									
1st Quarter	N.A.	N.A.	N.A.	4,255	7,074	2,819	N.A.	N.A.	N.A.
2d Quarter	N.A.	N.A.	N.A.	7,287	9,696	2,409	N.A.	N.A.	N.A.
3d Quarter	N.A.	N.A.	N.A.	8,795	11,292	2,497	N.A.	N.A.	N.A.
4th Quarter	N.A.	N.A.	N.A.	12,742	15,049	2,307	N.A.	N.A.	N.A.
Total	220,000	255,000	35,000	33,079	43,111	10,032	N.A.	N.A.	N.A.
1950									
1st Quarter	41,943	49,740	7,797	9,552	11,689	2,137	2,810	5,095	2,285
2d Quarter	48,344	56,848	8,504	11,911	13,771	1,860	3,272	5,467	2,195
3d Quarter	57,781 b/	65,287 b/	7,526 b/	12,141	14,270	2,129	3,865	6,041	2,176
4th Quarter	65,779 c/	73,849 c/	8,070 c/	12,181	13,835	1,654	4,402	6,653	2,251
Total	214,704 d/	246,792 d/	32,088 d/	45,785	53,565	7,780	14,349	23,256	8,907

* Footnotes for Table 11 follow on p. 66.

S-E-C-R-E-T

S-E-C-R-E-T

Table 11

Migration ^{a/} between West Germany and East Germany, between West Berlin and East Germany,
and between West Berlin and East Berlin, by Time Period 242/
1948-52
(Continued)

Time Period	Number of Persons Migrating				Number of Persons Migrating			Number of Persons Migrating	
	Net Migration To West Germany From East Germany	To West Germany From East Germany	From West Germany To East Germany	Net Migration To West Berlin From East Germany	To West Berlin From East Germany	From West Berlin To East Germany	Net Migration To West Berlin From East Berlin	To West Berlin From East Berlin	From West Berlin To East Berlin
1951									
1st Quarter	44,934	49,902	4,968	9,605	11,068	1,463	1,054	5,918	4,864
2d Quarter	40,445	45,976	5,531	12,233	13,547	1,314	5,109	6,159	1,046
3d Quarter	44,449	51,748	7,299	13,873	15,575	1,702	4,458	5,507	1,049
4th Quarter	42,046	47,761	5,715	13,476	14,804	1,328	3,727	4,548	821
Total	171,874	195,387	23,513	49,187	54,994	5,807	14,348	22,128	7,780
1952									
1st Quarter	25,447	30,009	4,562	8,398	9,980	1,582	2,794	3,628	834
2d Quarter	27,426	32,047	4,621	N.A.	N.A.	N.A.	2,509	3,260	751
3d Quarter	24,828	27,765	2,937	N.A.	N.A.	N.A.	3,323	4,134	811
4th Quarter	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	4,732	5,550	818
Total	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	13,358	16,572	3,214

a. Based on police reports of arrivals and departures.

b. Period from 1 July to 13 September 1950.

c. Period from 14 September to 31 December 1950.

d. The totals for the four quarters are slightly different from the total for the year obtained from a later source.

S-E-C-R-E-T

Approved For Release 1999/09/02 : CIA-RDP79-01093A000400170001-6

S-E-C-R-E-T

Table 12

Total Persons Passing Through the Emergency Acceptance Procedure in Berlin by Age and Sex 243/
January 1952-June 1953

Age Groups	1952			1953, First Quarter			April 1953			May 1953			June 1953		
	Total	Percent	Male	Total	Percent	Male	Total	Percent	Male	Total	Percent	Male	Total	Percent	Male
Under 6	9,356	8.2	4,813	10,138	9.3	5,206	3,104	8.8	1,601	3,401	9.9	1,761	3,655	9.4	1,911
6 to Under 14	14,633	12.9	7,519	16,346	15.0	8,425	5,107	14.5	2,631	4,943	14.5	2,541	4,900	12.6	2,526
14 to Under 18	10,479	9.2	6,650	10,408	9.5	6,053	3,999	11.4	2,292	3,883	11.4	2,147	5,050	12.9	3,017
18 to Under 21	10,981	9.7	7,333	7,318	6.7	4,049	2,503	7.1	1,411	2,366	6.9	1,307	3,300	8.5	1,982
21 to Under 25	9,186	8.1	5,540	6,203	5.7	3,163	2,024	5.8	1,007	2,036	6.0	1,015	2,610	6.7	1,427
25 to Under 45	35,622	31.4	17,801	33,357	30.5	14,145	10,431	29.6	4,463	9,927	29.1	4,373	11,302	29.0	5,187
45 to Under 65	21,411	18.9	12,390	22,999	21.0	11,147	7,146	20.3	3,593	6,769	19.8	3,410	7,320	18.8	3,797
65 and Over	1,751	1.6	957	2,569	2.3	1,215	873	2.5	425	819	2.4	405	832	2.1	397
Total	<u>113,419</u>	<u>100.0</u>	<u>63,003</u>	<u>109,338</u>	<u>100.0</u>	<u>53,403</u>	<u>35,187</u>	<u>100.0</u>	<u>17,423</u>	<u>34,144</u>	<u>100.0</u>	<u>16,959</u>	<u>38,969</u>	<u>100.0</u>	<u>20,244</u>

S-E-C-R-E-T

Approved For Release 1999/09/02 : CIA-RDP79-01093A000400170001-6

S-E-C-R-E-T

APPENDIX B

SOURCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
A - Completely reliable	1 - Confirmed by other sources
B - Usually reliable	2 - Probably true
C - Fairly reliable	3 - Possibly true
D - Not usually reliable	4 - Doubtful
E - Not reliable	5 - Probably false
F - Cannot be judged	6 - Cannot be judged

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation of the cited document.

-
1. State, Publication 2783, Occupation of Germany, Policy and Progress 1945-46, Washington, D.C., 1947, pp. 41, 159. U.
 2. Ibid., p. 81.
 3. J.P. Nettl, The Eastern Zone and Soviet Policy in Germany, 1945-1950, Oxford University Press, 1951, pp. 48, 62. U.
 4. Ibid., p. 62.
 5. Ibid., p. xvii.
 6. Ibid., pp. 62, 123.
 7. Ibid., pp. 61, 199.
 8. Vorstand der Sozialdemokratischen Partei Deutschlands, Die Reparationen in der Sowjet-Zone von 1945-1952, p. 6. U.
Robert Slusser (editor), Soviet Economic Policy in Postwar Germany, Research Program on the USSR, 1953, pp. 1-14. U.
Nettl, op. cit., pp. 150, 160-165.
 9. Nettl, op. cit., pp. 86, 174-177.

S-E-C-R-E-T

10. Slusser, op. cit., pp. xiv, 93.
Nettl, op. cit., p. 181.
11. Nettl, op. cit., p. 157.
Ministerium der Finanzen der Deutschen Demokratischen
Republik, Das neue Preisrecht, pp. 11-19. U.
12. Nettl, op. cit., p. 155.
13. Ibid., p. 211.
14. Ibid., pp. 160, 242.
15. Ibid., pp. 132, 134, xviii.
16. Ibid., p. xix..
17. Ibid., p. 112.
CIA, ORR Project 41.1, 28 Sep 1953, p. 5. S.
18. CIA, ORR Project 41.1, 28 Sep 1953, p. 5. S.
19. [REDACTED]
20. [REDACTED]
21. Die Wirtschaft, No. 23, 5 Jun 1953, p. 1. U.
22. Nettl, op. cit., p. 73.
23. CIA/RR IP-326, Organizational Structure of Soviet Control
and Procurement Agencies in East Germany, 27 Jan 1953, Part II.
S, US OFFICIALS ONLY.
CIA, ORR Project 41.1, op. cit., p. 5.
24. Otto Walther, Verwaltung Lenkung und Planung in der Wirtschaft
in der Sowjetischen Besatzungszone, Bundesministerium fuer
gesamtddeutsche Fragen, Bonn, 1953, p. 20. U.
25. [REDACTED]
26. [REDACTED]
27. [REDACTED]
28. State, Publication 2783, op. cit., p. 161.
29. Nettl, op. cit., p. 44.
30. Ibid., p. 161.
31. Ibid., p. 160.
32. Vorstand der Sozialdemokratischen Partei Deutschlands,
op. cit., p. 14.
Nettl, op. cit., pp. 147, 202-206.
33. Vorstand der Sozialdemokratischen Partei Deutschlands,
op. cit., p. 14.

S-E-C-R-E-T

34. Nettl, op. cit., p. 220.
35. Ibid., p. 220.
36. CIA, ORR Project 41.1, op. cit., p. 32.
37. Ibid., p. 30.
38. Bundesministerium fuer gesamtdeutsche Fragen, Die Sowjetische Hand in der Deutschen Wirtschaft, Bonn, 1952, p. 71. U.
39. Ibid., pp. 25, 71.
- 25X1A 40. [REDACTED]
[REDACTED]
41. Die Sowjetische Hand in der Deutschen Wirtschaft, op. cit., p. 80.
- 25X1A 42. [REDACTED]
[REDACTED]
43. Die Sowjetische Hand in der Deutschen Wirtschaft, op. cit., pp. 36 ff.
- 25X1A 44. Nettl, op. cit., p. 220.
New York Times, 24 Aug 1953. U.
[REDACTED]
- 25X1A 45. New York Times, op. cit.
New York Times, op. cit.
46. [REDACTED]
[REDACTED]
47. Die Sowjetische Hand in der Deutschen Wirtschaft, op. cit., p. 87.
Walther, op. cit., p. 33.
48. CIA, ORR Project 22.19, 1953, p. 9. S, US OFFICIALS ONLY.
Walther, op. cit., p. 33.
49. Walther, op. cit., p. 33.
Die Sowjetische Hand in der Deutschen Wirtschaft, op. cit., p. 30.
- 25X1A2g 50. Ibid., p. 30.
51. Ibid., p. 31.
[REDACTED]
52. Die Sowjetische Hand in der Deutschen Wirtschaft, op. cit., p. 31.
53. Ibid., p. 33.
54. Ibid.
55. Ibid.
- 25X1A 56. [REDACTED]
[REDACTED]
57. Ibid.
58. Ibid.

- 71 -

S-E-C-R-E-T

S-E-C-R-E-T

- STATSPEC 59. Ibid., p. 38.
60. Ibid.
61. [REDACTED]
62. CIA, ORR Project 41.1, op. cit., p. 44.
63. Ibid., pp. 44-46.
Nettl, op. cit., pp. 225 ff.
64. Nettl, op. cit., pp. 225 ff.
65. New York Times, op. cit.
66. Nettl, op. cit., p. 255.
25X1A 67. Vorstand der Sozialdemokratischen Partei Deutschlands, op. cit.,
pp. 52 ff.
68. [REDACTED]
69. Vorstand der Sozialdemokratischen Partei Deutschlands,
op. cit., p. 21.
70. New York Times, op. cit.
25X1A2g 71. [REDACTED]
72. [REDACTED]
Die Sowjetische Hand in der Deutschen Wirtschaft, op. cit.,
p. 87.
25X1A 73. New York Times, op. cit.
74. [REDACTED]
25X1A 75. Vorstand der Sozialdemokratischen Partei Deutschlands,
op. cit., p. 38.
76. [REDACTED]
77. Nettl, op. cit., p. xviii.
78. Ibid., p. 134.
79. Ibid. 25X1A
80. [REDACTED]
81. Das Wirtschaftsjahr, 1953, Verlag Die Wirtschaft, Berlin,
1952, p. 166.
82. [REDACTED]
STATSPEC 83. Gesetzblatt der Deutschen Demokratischen Republik, May 1952,
p. 407. U.
Das Wirtschaftsjahr, 1953, op. cit., p. 111. U.
84. [REDACTED]

25X1A

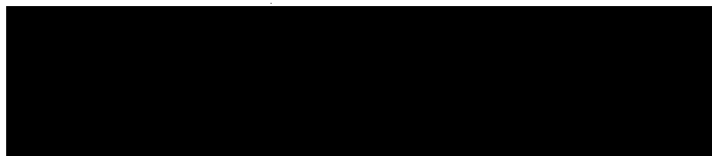
S-E-C-R-E-T

S-E-C-R-E-T

- 25X1A 85. Das Wirtschaftsjahr, 1953, op. cit., p. 112.
86. [REDACTED]
87. Nettl, op. cit., p. 83.
88. CIA, ORR Project 6-51, The European Satellite Power Complex,
26 Sep 1951, p. 12. S.
89. Walter Ulbricht, "Lehren des xix Parteitages der KPdSU fuer
den Aufbau des Sozialismus in der Deutschen Demokratischen
Republik," Einheit, Dec 1952, p. 1306. U.
90. Das Wirtschaftsjahr, 1952, Verlag Die Wirtschaft, Berlin,
1951, p. 103. U.
91. Ibid., pp. 102-103.
25X1X7 92. [REDACTED]
93. CIA, ORR, DI contribution to Project O.2 (1953). S.
94. Bartho Plonies and Otto Schonwalder, Die Sowjetisierung des
Mitteldeutschen Handwerks, Bundesministerium fuer
gesamtdeutsche Fragen, Bonn, 1951, p. 7. U.
95. Ibid., pp. 9-20.
96. Ibid., p. 41.
97. Felix Poehler, Die Vermichtung des privaten Grosshandels in
der Sowjetischen Besatzungszone, p. 34. U.
98. Ibid., p. 23.
99. Ibid., pp. 39-41.
100. Felix Poehler, Der Untergang des privaten Einzelhandels in
der Sowjetischen Besatzungs zone, Bundesministerium fuer
gesamtdeutsche Fragen, Bonn, 1952. U.
101. Berliner Zentralbank, The Economic Development in West
Berlin and in the Soviet Zone, 2d edition, revised, Berlin,
1952, p. 53. U.
25X1X7 102. Das Wirtschaftsjahr, 1953, op. cit., p. 227.
25X1A 103. [REDACTED]
104. [REDACTED]
105. CIA FDD, U-4415, 21 Aug 1953. C.
106. K. von der Neide, Raiffeisens Ende in der Sowjetischen
Besatzungszone, Bundesministerium fuer gesamtdeutsche
Fragen, Bonn, 1952. U.
107. Mathias Kramer, Die Landwirtschaft in der Sowjetischen
Besatzungszone, Bundesministerium fuer gesamtdeutsche
Fragen, Bonn. U.
25X1A 108. [REDACTED]
25X1A 109. Das Wirtschaftsjahr, 1953, op. cit., p. 94.
110. [REDACTED]
111. Walther, op. cit., p. 20.

S-E-C-R-E-T

112.



25X1A2g

113. Die Materialversorgung, Verlag Die Wirtschaft, Berlin, 1952, p. 33. U.

114. Walther, op. cit., pp. 29-33.

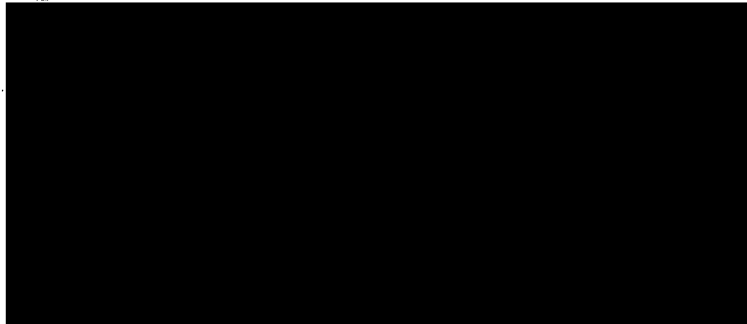
115. Ibid., p. 30.

116. Ibid.

117. Ibid.

118.

25X1A2g



119.

25X1A

120. Die Wirtschaft, No. 22, Berlin, 29 May 1953, p. 5. U.

121.



122. Ibid.

123. CIA FDD, Q592, 28 May 1953. S.

CIA FDD, Q586, 15 May 1953. S.

CIA FDD, Q517, 28 Oct 1952. S.

124. Walther, op. cit., p. 30.

125. "Die statistisches Berechterstattung zum Volkswirtschaftsplan 1951," Statistisches Praxis, Berlin, 1951, vol. 5. U.

25X1A

126.



127. Ministerium der Finanzen der DDR, Das neue Preisrecht, Berlin, p. B 1. U.

128. Gesetzblatt der Deutschen Demokratischen Republik, No. 22, 21 Feb 1953, p. 314. U.

129. Gesetzblatt der Deutschen Demokratischen Republik, 6 Dec 1951, p. 1141. U.

130. Ibid., 22 Dec 1950, p. 1233. U.

131. Das Wirtschaftsjahr, 1953, op. cit., p. 138.

132. Gesetzblatt der Deutschen Demokratischen Republik, 21 Apr 1950, p. 355. U.

133.



25X1A

- 74 -

S-E-C-R-E-T

S-E-C-R-E-T

134. Ibid.
135. Ibid., p. 11.
25X1A2g 136. Die Wirtschaft, No. 38, Berlin, 18 Sep 1953, p. 5. U.

137.

138. Ibid.

139. Ibid., p. 13.

25X1A

140.

141. Das Wirtschaftsjahr, 1953, op. cit., pp. 105-110.

142. Gesetzblatt der Deutschen Demokratischen Republik,
2 Oct 1952, p. 982. U.

143. Ibid., 31 Jan 1953, p. 165.

144. Die Wirtschaft, No. 5, Berlin, 30 Jan 1953, p. 2. U.

145. Gesetzblatt der Deutschen Demokratischen Republik,
3 Feb 1953, p. 175. U.

146. Ibid., 27 Feb 1953, p. 329. U.

147. Ibid., 10 Mar 1953, pp. 392 ff. U.

148. Ibid., 14 Apr 1953, p. 543. U.

149. Die Wirtschaft, 22 May 1953, Berlin, p. 1. U.

25X1A

150. CIA ORR estimate.

151. Die Wirtschaft, 13 Jun 1953, Berlin, p. 1. U.

25X1A8a 152. Die Wirtschaft, 26 Jun 1953, Berlin, p. 3. U.

153.

154.

155.

156.

Die Wirtschaft, 31 Jul 1953, Berlin, p. 3. U.

25X1A

STATSPEC

157.

158.

25X1A2g

159.

160.

161.

- 75 -

S-E-C-R-E-T

S-E-C-R-E-T

25X1A6a

162.

Die Wirtschaft, 11 Sep 1953, Berlin, p. 6. U.

25X1A8a

163.

164.

Economic Data on Potsdam Germany, Office for Military Government, US, 1947. U.

25X1X7

165.

166.

25X1A

167.

168. CIA, ORR Project 14.1, op. cit.

169. Colin Clark, Conditions of Economic Progress, 2d edition, 1951, pp. 90 ff. U.

170. United Nations, National Income Statistics, 1938-48, pp. 80 ff. U.

25X1X7

171.

172. Nettl, op. cit., p. xviii.

173. Ibid., pp. 247 ff.

174. Ibid.

175. CIA estimate.

176. Recomputed on a 1938 base from the following sources:

a. International Financial Statistics, Jun 1953, p. 86. U.

b. Statistisches Jahrbuch fuer die Bundesrepublik Deutschlands, 1952. U.

c. Wirtschaftswissenschaftliches Institut der Gewerkschaften, Deutschland in Zahlen, 1950, Cologne, Bund Verlag, 1951. U.

177. Statistisches Praxis, Oct 1953. U.

178. Wirtschaft und Statistik, Statistisches Bundesamt, Bonn, Jun 1953, p. 236. U.

179. Das Wirtschaftsjahr, 1952, op. cit., p. 101.

180. Ibid., p. 115.

STATSPEC 181. Die Wirtschaft, Berlin, 20 Feb 1953. U.

182.

183. Die Wirtschaft, Berlin, 14 Aug 1953. U.

Ibid., 1 Nov 1953.

STATSPEC

184.

Ibid., 1 Nov 1953.

185.

186. Ibid., 6 Oct 1953, p. EE 4.

25X1A

187.

Ibid., 30 Jul 1953, p. EE 21.

188.

189. Ibid., p. 5.

25X1A2g

190.

S-E-C-R-E-T

25X1A

191. [REDACTED]
192. Ibid., p. 5.
193. Bundesministerium fuer gesamtdeutsche Fragen, Die Bevoelkerungsbilanz der Sowjetischen Besatzungszone, 1939 bis 1949, supplement, "Die Volkszahlung 1950," Bonn, 1951. U.

25X1A

194. [REDACTED]
195. [REDACTED]

25X1A2g

196. [REDACTED]
197. Statistisches Jahrbuch fuer die Bundesrepublik Deutschland, 1952, Stuttgart-Cologne, 1953. U.
198. CIA ORR, D/M/AG contribution to Project 0.2, 1953. S.

STATSPEC

199. [REDACTED]
200. [REDACTED]

25X1A2g

201. [REDACTED]
202. Commerce, World Trade Compilation from Official Sources, 1950-52.

25X1A

203. [REDACTED]
Bundesministerium fuer gesamtdeutsche Fragen, Der Aussenhandel der Sowjetischen Besatzungszone Deutschlands, Bonn, 1953, pp. 4-6. U.

25X1A2g

204. [REDACTED]
205. [REDACTED]
Bundesministerium fuer gesamtdeutsche Fragen, Der Aussenhandel der Sowjetischen Besatzungszone Deutschlands, Bonn, 1953, pp. 4-6. U.

25X1A2g

206. CIA, ORR, S/TF, The Foreign Trade of East Germany, 1948-52, Contribution to ORR Project 0.2, The Economy of East Germany, pp. 5a passim. S, US OFFICIALS ONLY. This reference constitutes the source of all data on East-West trade of East Germany.

25X1A2g

207. [REDACTED]
208. [REDACTED]
209. Commerce, 1952, op. cit.
210. Ibid., 1951, 1952.

- 77 -

S-E-C-R-E-T

25X1A2g

Approved For Release 1999/09/02 : CIA-RDP79-01093A000400170001-6

Approved For Release 1999/09/02 : CIA-RDP79-01093A000400170001-6

S-E-C-R-E-T

240. Ibid.
241. Ibid.
242. Bundesminister fuer Vertriebene, "Uebersicht ueber die
Zuwanderer aus der Sowjetischen Besatzungszone und dem
Sowjetischen Sektor von Berlin (S BZ) seit 1949," IV
2 a-8610-7043/53, 4 Jul 1953, p. 5.
243. West Germany:

1949: Wirtschaft und Statistik, Vol. 2, No. 3, Jun 1950,
p. 77.

1950: Yearly total: Statistische Berichte, VIII/12/6,
5 Nov 1951;

1st quarter, ibid., VIII/12/1, 4 Sep 1950
2d quarter, ibid., VIII/12/2, 7 Oct 1950
3d quarter, ibid., VIII/12/3, 1 Mar 1951
4th quarter, ibid., VIII/12/4, 30 Apr 1951.

1951:

1st quarter, ibid., VIII/12/5, 14 Jul 1951
2d quarter, ibid., VIII/12/7, 8 Nov 1951
3d quarter, ibid., VIII/12/8, 6 Feb 1952
4th quarter, ibid., VIII/12/9, 23 May 1952.

1952:

1st quarter, ibid., VIII/12/10, 1 Sep 1952
2d quarter, ibid., VIII/12/11, 2 Jan 1953
3d quarter, ibid., VIII/12/12, 25 Mar 1953.

West Berlin:

1948: Berliner Statistik, Vol. 3, No. 12, Dec 1949,
pp. 292-293.

1949: Ibid., Vol. 3, No. 12, Dec 1949, pp. 292-293.

Ibid., Vol. 5, Nos. 7 and 8, Jul and Aug 1951,
p. 169.

S-E-C-R-E-T

1950:

1st quarter, ibid., Vol. 4, Nos. 5 and 6, May and Jun 1950, p. 117

2d quarter, ibid., Vol. 4, No. 9, Sep 1950, p. 213

3d quarter, ibid., Vol. 5, No. 1, Jan 1951, p. 22

4th quarter, ibid., Vol. 5, No. 6, Jun 1951, p. 149.

1951

and

1952:

Migration between West Berlin and the Soviet Zone:

Berliner Statistik, Sonderdienst, No. 33 (7 Jul 1951) and No. 48 (31 Aug 1951)

Berliner Statistik, Quellenwerk, Reihe Bevoelkerungswesen, Nos. 3 (26 Sep 1951), 6 (27 Nov 1951), 9 (22 Dec 1951), 11 (28 Jan 1952), 13 (21 Feb 1952), 15 (31 Mar 1952), 18 (7 May 1952), and 20 (4 Jun 1952).

Migration between West Berlin and East Berlin:

Berliner Statistik, Beilage: Zahlenaus Verwaltung und Wirtschaft, Jan and Feb 1950-Feb 1953.

S-E-C-R-E-T

CONFIDENTIAL

~~**SECRET**~~

US OFFICIALS ONLY